

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

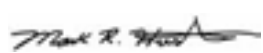
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

**Comprehensive Annual Financial Report**  
**City of Grosse Pointe Farms, Michigan**  
**For the Fiscal Year Ended June 30, 2006**

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**City Council**

James C. Farquhar - Mayor

Charles S. "Terry" Davis III

Joseph T. Leonard

Douglas F. Roby

Therese Joseph

Peter W. Waldmeir

Louis Theros

---

Shane L. Reeside - City Manager

John Modzinski - City Controller

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**Audit Committee**

Charles S. "Terry" Davis III

James C. Farquhar

Louis Theros

# City of Grosse Pointe Farms, Michigan

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# City of Grosse Pointe Farms, Michigan

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## **Introductory Section**

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## City of Grosse Pointe Farms

90 Kerby Road, Grosse Pointe Farms, Michigan 48236-3161

phone 313 885.6600 fax 313 885.0917

27 October, 2006

To the Honorable Mayor and City Council  
City of Grosse Pointe Farms  
Grosse Pointe Farms, Michigan 48236

With this letter, we transmit the City of Grosse Pointe Farms' Comprehensive Annual Financial Report (CAFR) for the fiscal year which ended June 30, 2006. This report has been prepared pursuant to, and in compliance with State statutes, which require the City to publish a complete set of financial statements within six months of the close of each fiscal year. These statements are in compliance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. This transmittal letter is designed to complement the Management's Discussion and Analysis (MD&A) section of this report and should be used in conjunction with it. The MD&A immediately follows the report of the independent auditors.

The financial statements have been prepared by the City Controller's Department for the purpose of disclosing the City's financial condition to its residents, elected officials, and other interested parties. Management assumes full responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

The City of Grosse Pointe Farms' financial statements have been audited by Plante & Moran, PLLC. The purpose of an independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Grosse Pointe Farms' financial statements for the year ended June 30, 2006 are fairly presented in conformity with GAAP. Plante & Moran, PLLC's report is presented as the first component of the financial section of this report.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter and the City's organizational chart. The financial section includes the basic financial statements and the combining and individual fund financial statements and schedules, as well as the auditor's report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

This report includes all funds of the City. The City provides a full range of services including police and fire protection, sanitation services, recreational activities, parks, construction and maintenance of streets and infrastructures, and the operation of a water utility system.

#### ECONOMIC CONDITION & OUTLOOK

The City of Grosse Pointe Farms is an affluent, suburban community located in the northeast corner of Wayne County and nestled among its four Grosse Pointe neighbors between the City of Detroit on its west and Lake St. Clair on its east. Its population of 9,764 is distributed among almost 3,900 households, having a median household income of \$107,624 and an average per capita income of \$41,872. The median value of an owner-occupied residence in the City is \$295,100. The labor force is composed largely of managerial and professional personnel, of which over 70% has some level of college education. The unemployment rate among Farms' residents is less than 2%.

The City is ideally situated in relation to major transportation routes, including I-94 and I-696. Its location along Lake St. Clair provides a scenic and recreational asset of indeterminable value. The reputation for excellence of the Grosse Pointe Public School System is widely recognized and draws families to the community. But more importantly, the City itself is committed to preserving and enhancing the viability of the community, its history and heritage, the quality of its housing stock, the repair and replacement of its infrastructure, the safety and welfare of its citizens and visitors, the aesthetics of its environs, the provision of cost efficient services, and the special enhancements that make a city a community.

Currently, the State of Michigan is in an economic downturn. Approximately 6 percent of the City's total revenues come from sales tax that is collected by the State and shared with local units of government. Due to reductions in statewide collections of state taxes, the State government has retained a high portion of the sales tax in order to balance its own budget. This has resulted in a decrease in state-shared revenue in the current year, and further reductions are being anticipated by the City for the near future. Fortunately, unlike most communities in the State, Grosse Pointe Farms' reliance on state-shared revenue is a relatively small portion of the City's budget. This is due to a strong residential tax base which makes up almost 95% of the tax roll or 70% of its total revenue.

In conclusion, the economic outlook for the City of Grosse Pointe Farms continues to be good. The City has maintained a strong financial position as a result of significant gains in property tax receipts, which are generated by the continued strength of the local economy and City Council's and management's prudent budgeting practices.

#### MAJOR INITIATIVES

An important initiative for any fiscal year is securing and protecting the stabilization of the total fund balance position, while addressing current and future capital outlay requirements. Through a series of budgetary actions and careful control of expenditure requests, this initiative has been achieved. While reducing the tax rate each year over the past four years, the City has maintained the lowest operating millage in the Grosse Pointes. This has been accomplished while creating surpluses and increasing fund balance. With an accounting change adding \$317,904 to the beginning fund balance in FY 2002-2003, the beginning fund balance at June 30, 2003 of the General Fund totaled \$3,638,899. The City added \$240,418 to its fund balance in the General Fund in FY 2003-2004, and \$194,398 in FY 2004-2005. For FY 2005-2006, \$93,734 was added to the General Fund reserves, resulting in a balance of \$4,167,449 of which \$81,830 is reserved for inventories and prepaid items, \$1,458,454 is reserved or designated for future capital outlay, and \$2,627,165 is undesignated.

A second area of emphasis this past year was again our recreation infrastructure. The City of Grosse Pointe Farms is noted for its exceptional recreational amenities. This past fall and all winter long, City contractors and engineers worked to reconstruct, reconfigure, and expand the City's harbor at the Pier Park. With this project, the City is now able to offer boat wells of up to fifty-five feet in length, up from thirty-seven feet, and an additional forty-two wells to our residents. Also, most of the small harbor wells used cable to tie down the boats. Now all boat wells have their own finger pier, as well as upgraded water and electrical service. It should be noted that the City has again received a very favorable interest rate due to our 'AA+' rating from Standard & Poors', resulting in yield of less 3.9% for the 20-year bond issue.



Due to the reconfiguration of the harbor, addition of finger piers in the small harbor, and mild winters, the City has lost its ice skating area in the harbor. To make up for this, the City is researching the possibility of building an outdoor artificial ice rink at the Pier Park. Currently, this idea is being discussed with the Grosse Pointe Farms Foundation as a potential project/fund-raiser next year.

Third, the City continues its aggressive refurbishment of its water and sewer system infrastructure. This year, the City focused on refurbishing water mains, lining about 6,300 linear feet of eight inch water main. This trenchless method allows the City to line several hundred feet of water main at a time, while having to only dig holes at each end of the lined main. More efficient and less expensive, this method has significantly reduced the cost per linear foot. This project was paid for by proceeds from a bond issue in December 2004.

And finally, our business districts continue to thrive. The City of Grosse Pointe Farms does not have a significant industrial base. Only approximately 4% of its state equalized value is commercial property, located primarily in two neighborhoods: a one-mile strip of shops on its border with Detroit along Mack Avenue and its central business district known as the "Hill" on Kercheval, between Muir Road and Fisher Road. Though these districts make up a small part of the overall community in terms of geography, they are vitally important to the quality of life our residents enjoy. Both districts have experienced resurgence and suffer few storefront vacancies today.

In addition to the accomplishments addressing infrastructure needs, the City continues to implement efficiencies in various operating departments in an ongoing effort to provide excellence in city services.

#### **For the Future:**

Another major asset of the City is its ability to provide water service to its citizens through its own water filtration plant. The City has consistently provided water to our residents and our customer, Grosse Pointe City, at a lower rate than charged by the Detroit Water and Sewage Department (DWSD). In addition, by having our own plant the City has benefited by excess capacity, which has prevented water restrictions during peak use in the hot summer months, and a backup generator that kept water service from being interrupted.

However, the 1920's plant is in need of significant maintenance. A five-year capital projects budget has been developed to address those needs. In the past fiscal year, the City replaced the meters at the plant's main intake from the lake, as well as installed a new sewer meter at the Chalfonte pumping station. The exterior of this magnificent historical structure has been greatly restored with the following: 1) New roof; 2) New windows; 3) Reconstruction of the main entrance, with the restoration of a water foundation; 4) Complete landscaping in front of the building; 5) Many other minor improvements and repairs.

Lastly, one would be remiss not to discuss the challenge that pension and employee health care costs have had on organizations in both the public and private sectors. The City's two retirement systems require increased contributions from the General Fund. Steps have been taken to increase funding contributions made by active employees and new employees are required to make contributions for postretirement health care benefits. In addition, the City has modified its health care plans to increase deductibles and co-pays and has started to self insure not only Blue Cross/Blue Shield medical insurance, but also prescription drug coverage.

Emphasis will continue on making government more efficient and effective, improving service levels while decreasing costs where possible. Reengineering government to make it more responsive to our rapidly changing world and to citizen and employee needs will be the test of future success.

#### FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Annually, the audit committee directs the external auditors to perform expanded internal control tests as part of their independent audit of the City's Comprehensive Annual Financial Report. This practice, which was implemented in 2003, results in the external auditor performing certain internal control tests which extend beyond the standard necessary for the formulation of their independent auditor's report. We believe the City is one of few communities in Michigan that have adopted this practice.

## Budgeting Controls

The object of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General, Special Revenue, Capital Projects, and Debt Service Funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the line item detail level within an individual fund.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

## General Government Functions

The following schedule presents a summary of all governmental fund type revenues for the fiscal year ended June 30, 2006 and the amount of percentage of increases and decreases in relation to prior year revenues.

<u>Revenue Source</u>	<u>FY 2006 Amount</u>	<u>Percent of Total</u>	<u>Increase &lt;Decrease&gt; from 2005</u>	<u>Percent of Increase &lt;Decrease&gt;</u>
Property taxes	\$ 9,372,015	69.02%	\$290,707	3.20%
Licenses and permits	280,651	2.07%	(19,741)	(6.57%)
Federal sources	17,525	0.13%	(135,562)	(88.55%)
State sources	1,390,255	10.24%	(44,830)	(3.12%)
Charges for services	1,356,125	9.99%	277,809	25.76%
Fines and forfeitures	409,959	3.02%	(16,939)	(3.97%)
Interest	589,178	4.34%	258,513	78.18%
Other	162,589	1.20%	(320,205)	(66.32%)
Total	<u>\$ 13,578,297</u>	<u>100%</u>	<u>\$289,752</u>	

Property tax revenue increased 3.2% primarily as a result of home improvements and reconstruction which raised taxable S.E.V.s and offset the revenue effect of the reduction in the City's tax rate. Without the tax rate decrease, property tax revenues would have increased by 1% more. Building permit revenue accounts for the decrease in licenses and permits. Federal sources declined, reflecting the fact that there were one-time grants received in 2005 for public safety equipment. The State's economic downturn has again caused a decline in the City's state-shared revenue. With the reconstruction of the City's harbor, as well as having the new, award-winning, Community building at the Pier Park open for rentals and having an expanded recreation program for the first full year, charges for services rose significantly. Short-term interest rates continued to rise throughout the year, going up another 200 basis points during the fiscal year. The City's investment strategy will be to lock in investment rates with a few longer-term investments to reduce interest rate risk, while maximizing the return on investments by investing in issues maturing from two to three years after the date of purchase, as well as longer term investments that have 'step-up' provisions in the rate of return.

The following schedule presents a summary of all governmental fund type expenditures for the fiscal year ended June 30, 2006 and the percentage of increases and decreases in relation to prior year amounts.

<b><u>Expenditures</u></b>	<b><u>Amount</u></b>	<b><u>Percent of Total</u></b>	<b><u>Increase &lt;Decrease&gt; from 2005</u></b>	<b><u>Percent of Increase &lt;Decrease&gt;</u></b>
General government	964,324	5.53%	(19,684)	(2.00%)
Public safety	4,388,644	25.18%	52,408	1.21%
Public works	2,487,677	14.27%	363,665	17.12%
Public service	582,750	3.34%	45,577	8.48%
Municipal Court	272,935	1.57%	(5,462)	(-1.96%)
Recreation and culture	1,104,767	6.34%	172,514	18.51%
Other	1,696,519	9.73%	96,404	6.02%
Capital outlay	5,735,292	32.90%	1,102,675	23.80%
Debt service	<u>198,653</u>	<u>1.14%</u>	<u>108,653</u>	<u>120.73%</u>
Total	<u><u>17,431,561</u></u>	<u><u>100%</u></u>	<u><u>1,916,750</u></u>	

Significant paving projects for both the Major and Local Street Funds account for the increase in Public Works. Expanded services, programs, and operating hours at the Pier Park's new community center increased total operating costs for recreation and culture functions and are more than offset by the increased revenues discussed earlier. Capital outlay rose because of the \$4.9 million dollar harbor project. Debt service rose as the interest payments on the bonds for the Pier Park's community center and harbor have begun.

### **General Fund Balance**

The total fund balance of the General Fund increased by \$93,734 to \$4,167,449. A total of \$81,830 was reserved for inventories and prepaid items and \$1,458,454 was designated for subsequent years' capital outlay, leaving an undesignated fund balance of \$2,627,165.

### **Enterprise Operations**

The City operates its own water supply and sewage pumping system. The operating revenue of the Water and Sewer Fund amounted to \$3,662,034, which is an increase of \$510,657 from the preceding year. During the same period, operating expenses, excluding depreciation, were \$3,590,474. After providing for depreciation, the system experienced an operating loss of \$235,496.

### **Pension Trust Fund Operations**

The operations of the Public Safety Officers and General Employees Retirement Systems produced sound returns during the fiscal year, posting a strong gain of approximately 8.0%. The systems' reserves increased by \$907,645 (PSRS) and \$1,042,960 (GERS), respectively. The annual actuarial valuation is still strong, as the funding level for PSRS is approximately 114% and 86% for GERS.

### **Debt Administration**

At June 30, 2006, the City had \$17,023,737 of general obligation debt outstanding. The net direct tax-supported debt is also \$17,023,737, and is the equivalent of \$1,743.52 per capita and represents less than 3 percent of the City's state equalized valuation. Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10 percent of total equalized value of real and personal property. As of June 30, 2006, the City's general obligation bonded debt was well below the legal limit of \$102,080,158.

## **Cash Management**

Cash temporarily idle during the year was invested in demand deposits; certificates of deposit, physical and negotiable; bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; and government pooled investment accounts. Yields on investments ranged from about 4.70% in pooled investment accounts, and 2.75% to 5.36% in CD's and obligations of the United States. The pension trust and nonexpendable trust funds' investment portfolios also include corporate bonds and stocks.

The City administers an active cash management and investment program. The primary goals are to maximize the amount of cash available for investments, to earn the maximum financial return on available funds, and to safeguard the invested principal. The City takes full advantage of temporary idle funds, which also includes vendor payments. To ensure the most competitive rates on investments, the cash resources of the individual funds, excluding certain fiduciary funds, are combined to form a pool of cash for investment.

## **Risk Management**

The City has entered into a joint powers agreement with other Michigan units of government by joining the Michigan Municipal Liability & Property Pool for its general liability insurance, including auto and public official liability as well as property damage insurance. The City has also established a self-insured worker's compensation program with third-party administration and reinsurance coverage for claims over \$375,000.

## OTHER INFORMATION

### **Independent Audit**

The City Charter and state statutes require an annual audit of all accounts of the City by certified public accountants. The accounting firm of Plante & Moran, PLLC was selected by the City Council. The auditor's report on the basic financial statements and combining and individual fund financial statements is included in the financial section of this report.

### **Certificate of Achievement**

The Government Finance Officer's Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Grosse Pointe Farms for its comprehensive annual financial report for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Grosse Pointe Farms has received a Certificate for the last 13 consecutive years (fiscal years 1993-2005). We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program's requirements, and are submitting it to the GFOA.


### **Acknowledgements**

The preparation of this Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the accounting staff as well as various employees throughout the City. Our sincere appreciation is expressed to each of them as well as to the City Council for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

Respectfully submitted,



Shane L. Reeside  
City Manager



John L. Modzinski  
City Controller

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Grosse Pointe Farms  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

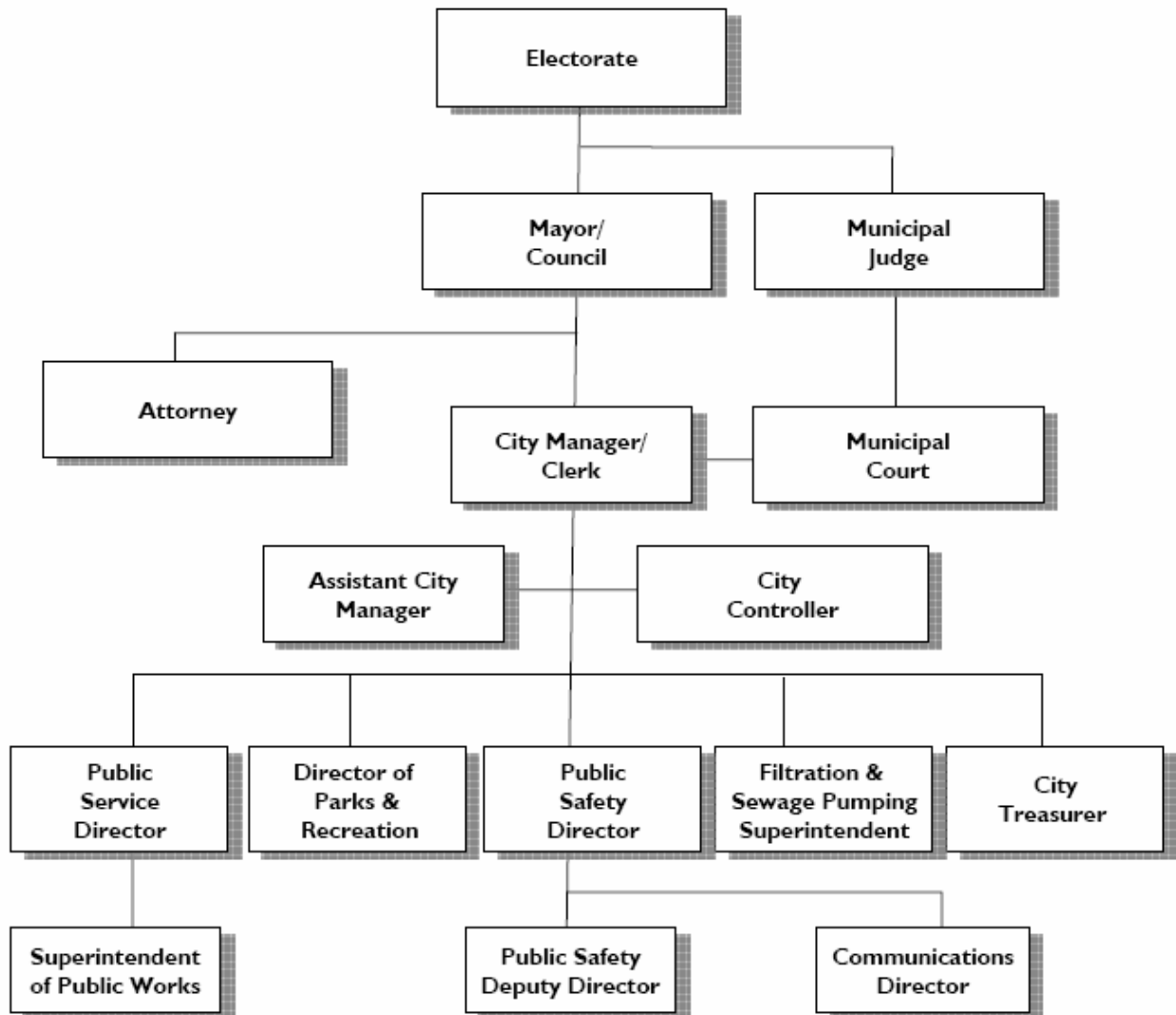
Executive Director



# City of Grosse Pointe Farms

June 30, 2006

## Organizational Chart



## **Financial Section**

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Clinton Township, MI 48038  
Tel: 586.416.4900  
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## Independent Auditor's Report

To the Honorable Mayor and Members  
of the City Council  
City of Grosse Pointe Farms, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grosse Pointe Farms, Michigan (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and Members  
of the City Council  
City of Grosse Pointe Farms, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical sections, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and the retirement systems schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical and continuing disclosure sections have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Plante & Moran, PLLC*

October 27, 2006

# City of Grosse Pointe Farms, Michigan

## Management's Discussion and Analysis

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2006 compared to the prior year (in thousands of dollars):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current assets	\$ 8,811	\$ 8,581	\$ 1,925	\$ 1,706	\$ 10,736	\$ 10,287
Noncurrent assets:						
Long-term receivables	-	-	-	-	-	-
Restricted assets	-	1	645	1,518	645	1,519
Capital assets	24,535	20,078	16,071	15,098	40,606	35,176
Total assets	33,346	28,660	18,641	18,322	51,987	46,982
<b>Liabilities</b>						
Current liabilities	1,502	1,434	839	529	2,341	1,963
Long-term liabilities	8,095	3,651	10,285	10,970	18,380	14,621
Total liabilities	9,597	5,085	11,124	11,499	20,721	16,584
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	17,642	17,585	6,523	5,695	24,165	23,280
Restricted	560	571	-	-	560	571
Unrestricted	5,547	5,419	994	1,128	6,541	6,547
Total net assets	<u>\$ 23,749</u>	<u>\$ 23,575</u>	<u>\$ 7,517</u>	<u>\$ 6,823</u>	<u>\$ 31,266</u>	<u>\$ 30,398</u>

# City of Grosse Pointe Farms, Michigan

## Management's Discussion and Analysis (Continued)

The City's combined net assets increased 2.9 percent from a year ago - from \$30,398,151 to \$31,265,825. Both the governmental activities and the business-type activities increased in net assets by 0.7 percent and 10.2 percent, respectively. Business-type net assets grew due to the paying off of matured debt, as well as a positive cash flow from operations and property taxes. The expansion of the City's harbor and the related \$4.3 million bond issue contributed to the increase in governmental activities capital assets and long-term liabilities, respectively. Governmental activities net assets rose slightly, as the operating surpluses from governmental fund types were modest this year.

The following table shows the revenue and expense activity during June 30, 2006 and as compared to the prior year (in thousands of dollars):

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 1,583	\$ 1,401	\$ 3,859	\$ 3,333	\$ 5,442	\$ 4,734
Operating grants and contributions	579	1,055	-	-	579	1,055
General revenue:						
Property taxes	9,372	9,081	1,156	1,111	10,528	10,192
State-shared revenue	824	833	-	-	824	833
Interest	614	331	99	68	713	399
Franchise fees and other	626	588	-	-	626	588
Transfers	(120)	(120)	120	120	-	-
Total revenue	13,478	13,169	5,234	4,632	18,712	17,801
<b>Program Expenses</b>						
General government	3,032	3,251	-	-	3,032	3,251
Public safety	4,755	4,607	-	-	4,755	4,607
Public works	3,282	2,920	-	-	3,282	2,920
Municipal court	274	279	-	-	274	279
Recreation and culture	1,701	1,235	-	-	1,701	1,235
Interest on long-term debt	260	36	-	-	260	36
Water and sewer	-	-	4,261	3,750	4,261	3,750
Municipal radio system	-	-	279	280	279	280
Total program expenses	13,304	12,328	4,540	4,030	17,844	16,358
<b>Net Change in Net Assets</b>	174	841	694	602	868	1,443
<b>Net Assets - Beginning of year</b>	23,575	22,734	6,823	6,221	30,398	28,955
<b>Net Assets - End of year</b>	<u>\$ 23,749</u>	<u>\$ 23,575</u>	<u>\$ 7,517</u>	<u>\$ 6,823</u>	<u>\$ 31,266</u>	<u>\$ 30,398</u>

# **City of Grosse Pointe Farms, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

The City's total governmental revenues increased approximately \$310,000, or 2.3 percent from the previous fiscal year. State-shared revenue decreases were offset by strong growth in the City's tax base and rising interest income.

The City's total governmental expenses increased by approximately \$977,000, or 7.9 percent, as the City continues to invest in capital equipment and buildings.

The following represents some of the more significant financial highlights for the year ended June 30, 2006:

- The City undertook the huge task of upgrading its municipal harbor by issuing \$4.3 million dollars in bonds, as well as using \$500,000 of existing fund balance. The bonds will be repaid by increased mooring fees.
- Interest income, our third largest single, line-item revenue source, rose by approximately \$284,000, or approximately 85 percent; overnight interest rates rose from just over 3 percent to over 4.8 percent by the end of the fiscal year. The City is adjusting its investment strategy to optimize investment return while minimizing maturity risk.
- The general government's increase in spending is largely due to increased pension funding. Contributions to both of the City's pension plans increased by approximately \$243,000 over the previous year in fiscal year 2006.

### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Fund and Municipal Radio System. We provide water to our residents and the City of Grosse Pointe's residents at our municipal water filtration plant. The City pumps its sewage to the City of Detroit for treatment and disposal. This year, the City of Detroit's Water and Sewer Department (DWSD) decreased the City's flow rate by 2.10 percent. However, the City's storm water charge increased over 20 percent. Also, DWSD has a third fee called "lookback", which is an adjustment to the storm water charge from two years prior. The lookback can be either a charge or a credit, as the storm water fee charged two years prior is calculated to have been too low or too high, respectively. In fiscal year 2006, the City went from a \$42,038 credit to a \$39,421 credit, resulting in a net increase in cost of \$2,617. Water and sewer rates were increased to cover projected operational costs, with a small subsidy from property taxes. The City billed out about 2 million cubic feet over its breakeven amount of 80 million cubic feet. Thus, when the City's operating loss is netted with the excess of property tax revenue over the bond payments, the result is a surplus of about \$79,000.

# **City of Grosse Pointe Farms, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **The City's Funds**

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as show accountability for certain activities, such as the Cable T.V. Fund and the Recycling Fund. The City's major funds are the General Fund and the Capital Projects Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$4,756,000 during fiscal year 2006. The General Fund is supported primarily by property taxes and state-shared revenue. The Major Streets Fund maintains the City's major streets (as contrasted with the neighborhood streets that are maintained by the Local Streets Fund), and is supported by state gas and weight taxes. The Local Streets Fund also receives gas and weight taxes, as well as transfers from the City's General Fund and Major Streets Fund. The Insurance Retention Fund accounts for expenditures for the City's self-insured workers' compensation. The Capital Projects Fund is utilized to account for purchases of individual items greater than \$5,000.

### **General Fund Budgetary Highlights**

Approaching the end of the year, the City administration and City Council amend the budget to account for new expenditures not in the budget, as well as unanticipated expenditures. The most significant adjustments were to: 1) charges for services for additional boat well fees; 2) interest income, due to rising interest rates; 3) debt service, for interest on the harbor bonds; 4) operating transfer out - Capital Project Fund, to send fund balance and additional funds for the harbor project; and 5) operating transfer out - Local Street Fund, to help finance future paving projects.

### **Capital Asset and Debt Administration**

At the end of fiscal year 2006, the City had \$40.6 million invested in a wide range of capital assets, including land, buildings, fire equipment, vehicles, and water, sewer, and storm sewer lines. The value of the infrastructure, net of depreciation contained in this report, is \$3.55 million and \$3.56 million for fiscal years 2006 and 2005, respectively (see Note 3 of the notes to the basic financial statements for additional information). The value of the land improvements and buildings and improvements, net of depreciation, is \$13.28 million and \$8.81 million for the fiscal year 2006 and 2005, respectively.



# **City of Grosse Pointe Farms, Michigan**

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## **Management's Discussion and Analysis (Continued)**

Debt reported in these financial statements is related mostly to the sewer separation project during fiscal years 2000 and 2001 and is recorded in the Water and Sewer Fund (see Note 5 of the notes to the basic financial statements for additional information). However, there have been two bond issues totaling \$8.3 million in the past two years, \$6.8 million for parks and recreation projects and \$1.5 million for the water system and distribution projects.

### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for next year calls for another cut of .125 mills. This can be accomplished because of the strong growth in our tax base, as the residents continue to improve and rebuild on their properties.

On the expenditure side, medical insurance continues to increase at a rate much greater than inflation. In May 2005, the City began a self-insurance program with Blue Cross/Blue Shield in an effort to reduce costs. In December 2005, the City began self-insuring all prescription drug benefits for current employees and most retirees. Also, the City has begun receiving subsidy payments from the federal government for providing prescription drug coverage to its retirees.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with an overview of the City's finances and to show the City's accountability for the revenue it receives. If you have any questions about this report or need additional information, we invite you to contact the Grosse Pointe Farms city controller's office.

# City of Grosse Pointe Farms, Michigan

## Statement of Net Assets June 30, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<b>Assets</b>			
Cash and investments (Note 2)	\$ 7,626,139	\$ 738,552	\$ 8,364,691
Receivables:			
Customers	1,216	1,048,566	1,049,782
Property taxes	322,796	59,563	382,359
Accrued interest	131,565	8,717	140,282
Other	88,490	-	88,490
Internal balances (Note 4)	88,335	(88,335)	-
Due from other governmental units	471,087	145,111	616,198
Inventories	17,109	-	17,109
Prepaid costs and other assets	64,721	13,020	77,741
Noncurrent assets:			
Restricted assets (Note 6)	-	644,827	644,827
Capital assets not being depreciated (Note 3)	5,918,821	182,297	6,101,118
Capital assets being depreciated - Net (Note 3)	18,615,571	15,889,180	34,504,751
Total assets	33,345,850	18,641,498	51,987,348
<b>Liabilities</b>			
Accounts payable	741,594	819,344	1,560,938
Accrued and other liabilities	631,953	-	631,953
Due to other governmental units	2,037	-	2,037
Deposits	126,390	19,777	146,167
Noncurrent liabilities (Note 5):			
Due within one year	578,011	572,916	1,150,928
Due in more than one year	7,517,062	9,712,439	17,229,500
Total liabilities	9,597,047	11,124,476	20,721,523
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	17,642,216	6,523,346	24,165,562
Restricted - Roads	560,278	-	560,278
Unrestricted	5,546,309	993,676	6,539,985
Total net assets	\$ 23,748,803	\$ 7,517,022	\$ 31,265,825

# City of Grosse Pointe Farms, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 3,032,307	\$ 293,764	\$ 17,525	\$ -
Public safety	4,755,663	600,677	-	-
Public works	3,282,469	114,641	561,639	-
Municipal court	273,569	167,030	-	-
Recreation and culture	1,700,773	406,907	-	-
Interest on long-term debt	260,050	-	-	-
Total governmental activities	13,304,831	1,583,019	579,164	-
Business-type activities:				
Water and sewer	4,260,980	3,662,034	-	-
Municipal radio system	278,847	196,483	-	-
Total business-type activities	4,539,827	3,858,517	-	-
Total primary government	<u>\$ 17,844,658</u>	<u>\$ 5,441,536</u>	<u>\$ 579,164</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Franchise fees and other				
Transfers				
Total general revenues and transfers				
<b>Change in Net Assets</b>				
<b>Net Assets</b> - Beginning of year				
<b>Net Assets</b> - End of year				

**Statement of Activities**  
**Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (2,721,018)	\$ -	\$ (2,721,018)
(4,154,986)	-	(4,154,986)
(2,606,189)	-	(2,606,189)
(106,539)	-	(106,539)
(1,293,866)	-	(1,293,866)
(260,050)	-	(260,050)
(11,142,648)	-	(11,142,648)
-	(598,946)	(598,946)
-	(82,364)	(82,364)
-	(681,310)	(681,310)
(11,142,648)	(681,310)	(11,823,958)
9,372,015	1,155,806	10,527,821
823,981	-	823,981
614,319	99,206	713,525
626,305	-	626,305
(120,000)	120,000	-
11,316,620	1,375,012	12,691,632
173,972	693,702	867,674
23,574,831	6,823,320	30,398,151
<b>\$ 23,748,803</b>	<b>\$ 7,517,022</b>	<b>\$ 31,265,825</b>

# City of Grosse Pointe Farms, Michigan

## Governmental Funds Balance Sheet June 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments (Note 2)	\$ 4,643,891	\$ 1,515,685	\$ 688,727	\$ 6,848,303
Receivables:				
Property taxes	322,796	-	-	322,796
Customers	-	-	1,216	1,216
Interest	79,168	7,778	35,127	122,073
Other	88,490	-	-	88,490
Prepaid costs and other assets	64,721	-	-	64,721
Due from other funds (Note 4)	88,335	-	500,000	588,335
Due from other governmental units	468,136	-	2,951	471,087
Inventories	17,109	-	-	17,109
<b>Total assets</b>	<b>\$ 5,772,646</b>	<b>\$ 1,523,463</b>	<b>\$ 1,228,021</b>	<b>\$ 8,524,130</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 255,678	\$ 434,362	\$ 45,338	\$ 735,378
Accrued and other liabilities	565,169	-	5,387	570,556
Due to other funds (Note 4)	500,000	-	-	500,000
Due to other governmental units	2,037	-	-	2,037
Unearned revenue	155,923	-	-	155,923
Cash bonds and deposits	126,390	-	-	126,390
<b>Total liabilities</b>	<b>1,605,197</b>	<b>434,362</b>	<b>50,725</b>	<b>2,090,284</b>
<b>Fund Balances</b>				
Reserved for prepaids items and inventories	81,830	-	-	81,830
Unreserved, reported in:				
General Fund	2,627,165	-	-	2,627,165
Special Revenue Funds	-	-	1,177,296	1,177,296
Capital Project Fund	-	1,089,101	-	1,089,101
Designated for subsequent year's capital outlay	1,458,454	-	-	1,458,454
<b>Total fund balances</b>	<b>4,167,449</b>	<b>1,089,101</b>	<b>1,177,296</b>	<b>6,433,846</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,772,646</b>	<b>\$ 1,523,463</b>	<b>\$ 1,228,021</b>	<b>\$ 8,524,130</b>

# City of Grosse Pointe Farms, Michigan

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## **Governmental Funds Reconciliation of Fund Balance to the Statement of Net Assets Year Ended June 30, 2006**

<b>Total Fund Balances for Governmental Funds</b>	<b>\$ 6,433,846</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Certain receivables are expected to be collected over several years and are not available to pay for current year expenditures in the General Fund	155,923
Capital assets used in governmental activities are not financial resources and are not reported in the funds	24,534,392
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(7,813,073)
Accrued interest payable is not included as a liability in governmental funds	(61,397)
Internal Service Fund is included as part of governmental activities	<u>499,112</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 23,748,803</u></b>

# City of Grosse Pointe Farms, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>				
Property taxes	\$ 9,372,015	\$ -	\$ -	\$ 9,372,015
Licenses and permits	280,651	-	-	280,651
Federal sources	8,622	-	8,903	17,525
State sources	828,785	-	561,470	1,390,255
Charges for services	1,243,038	-	113,087	1,356,125
Fines and forfeitures	409,959	-	-	409,959
Interest	439,622	122,199	27,357	589,178
Other	162,589	-	-	162,589
Total revenue	12,745,281	122,199	710,817	13,578,297
<b>Expenditures</b>				
Current:				
General government	964,324	-	-	964,324
Public safety	4,388,644	-	-	4,388,644
Public works and streets	1,447,373	-	1,040,304	2,487,677
Public service	475,135	-	107,615	582,750
Municipal court	272,935	-	-	272,935
Recreation and culture	1,104,767	-	-	1,104,767
Other	1,687,616	-	8,903	1,696,519
Capital outlay	-	5,735,292	-	5,735,292
Debt service	-	-	198,653	198,653
Total expenditures	10,340,794	5,735,292	1,355,475	17,431,561
<b>Excess of Revenue Over (Under) Expenditures</b>	2,404,487	(5,613,093)	(644,658)	(3,853,264)
<b>Other Financing Sources (Uses)</b>				
Transfers in (Note 4)	-	1,424,066	838,653	2,262,719
Transfers out (Note 4)	(2,310,753)	-	(221,966)	(2,532,719)
Issuance of debt (Note 5)	-	4,337,433	-	4,337,433
Total other financing sources (uses)	(2,310,753)	5,761,499	616,687	4,067,433
<b>Net Change in Fund Balances</b>	93,734	148,406	(27,971)	214,169
<b>Fund Balances</b> - Beginning of year	4,073,715	940,695	1,205,267	6,219,677
<b>Fund Balances</b> - End of year	<u>\$ 4,167,449</u>	<u>\$ 1,089,101</u>	<u>\$ 1,177,296</u>	<u>\$ 6,433,846</u>

# City of Grosse Pointe Farms, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006**

**Net Change in Fund Balances - Total Governmental Funds** \$ 214,169

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	5,829,577
Depreciation expense	(1,368,024)
Loss on disposal of capital assets	(4,804)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	169
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Long-term debt issuance is reported as an other financing source in the governmental funds. Long-term debt is not a revenue in the statement of activities and is reported as a long-term liability in the statement of net assets	(4,337,433)
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Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(61,397)
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Underwriter's discount originally reported as a decrease in bond proceeds in the funds and amortized in the statement of activities over the life of the corresponding bond issue	(370)
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Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	(106,381)
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Internal Service Funds are also included as governmental activities	<u>8,466</u>
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**Change in Net Assets of Governmental Activities** \$ 173,972



# City of Grosse Pointe Farms, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2006

	Business-type Activities			Governmental Activity
	Enterprise - Water and Sewer	Municipal Radio System	Total Business- type Activities	Internal Service Fund - Insurance Retention
<b>Assets</b>				
Current assets:				
Cash and investments (Note 2)	\$ 738,552	\$ -	\$ 738,552	\$ 777,836
Receivables:				
Customers	1,048,566	-	1,048,566	-
Property taxes	59,563	-	59,563	-
Interest	8,717	-	8,717	9,492
Due from other governmental units	35,880	109,231	145,111	-
Prepaid costs and other assets	12,264	756	13,020	-
Total current assets	1,903,542	109,987	2,013,529	787,328
Noncurrent assets:				
Restricted assets (Note 6)	644,827	-	644,827	-
Capital assets not being depreciated (Note 3)	182,297	-	182,297	-
Capital assets being depreciated - Net (Note 3)	14,906,037	983,143	15,889,180	-
Total noncurrent assets	15,733,161	983,143	16,716,304	-
Total assets	17,636,703	1,093,130	18,729,833	787,328
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	817,568	1,776	819,344	6,216
Accrued and other liabilities	-	-	-	-
Due to other funds (Note 4)	882	87,453	88,335	-
Deposits	-	19,777	19,777	-
Current portion of long-term debt (Note 5)	572,916	-	572,916	-
Total current liabilities	1,391,366	109,006	1,500,372	6,216
Noncurrent liabilities:				
Provision for uninsured losses	-	-	-	282,000
Long-term debt - Net of current portion (Note 5)	9,712,439	-	9,712,439	-
Total noncurrent liabilities	9,712,439	-	9,712,439	282,000
Total liabilities	11,103,805	109,006	11,212,811	288,216
<b>Net Assets</b>				
Investment in capital assets - Net of related debt	5,540,203	983,143	6,523,346	-
Unrestricted	992,695	981	993,676	499,112
Total net assets	<u>\$ 6,532,898</u>	<u>\$ 984,124</u>	<u>\$ 7,517,022</u>	<u>\$ 499,112</u>

# City of Grosse Pointe Farms, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Business-type Activities			Governmental Activity
	Enterprise - Water and Sewer	Municipal Radio System	Total Business-type Activities	Internal Service Fund - Insurance Retention
<b>Operating Revenue</b>				
Sale of water	\$ 1,240,062	\$ -	\$ 1,240,062	\$ -
Sewage disposal charges	1,754,014	-	1,754,014	-
Radio system charges	-	196,483	196,483	-
Other	667,958	-	667,958	-
Total operating revenue	3,662,034	196,483	3,858,517	-
<b>Operating Expenses</b>				
Water pumping and filtration	893,579	-	893,579	-
Sewage treatment	1,719,033	-	1,719,033	-
Sewage pumping	389,829	-	389,829	-
Water distribution	249,397	-	249,397	-
Radio system	-	195,506	195,506	-
Benefit payments	-	-	-	166,675
General and administrative expenses	338,636	-	338,636	-
Depreciation	307,056	67,087	374,143	-
Total operating expenses	3,897,530	262,593	4,160,123	166,675
<b>Operating Loss</b>	(235,496)	(66,110)	(301,606)	(166,675)
<b>Nonoperating Revenue (Expense)</b>				
Interest income	82,952	16,254	99,206	25,141
Interest expense	(363,450)	(16,254)	(379,704)	-
Property taxes	1,155,806	-	1,155,806	-
<b>Income (Loss) - Before operating transfers</b>	639,812	(66,110)	573,702	(141,534)
<b>Operating Transfers In</b>	120,000	-	120,000	150,000
<b>Change in Net Assets</b>	759,812	(66,110)	693,702	8,466
<b>Net Assets - Beginning of year</b>	5,773,086	1,050,234	6,823,320	490,646
<b>Net Assets - End of year</b>	<u>\$ 6,532,898</u>	<u>\$ 984,124</u>	<u>\$ 7,517,022</u>	<u>\$ 499,112</u>

# City of Grosse Pointe Farms, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Business-type Activities			Governmental Activity
	Enterprise - Water and Sewer Fund	Municipal Radio System	Total Business-type Activities	Internal Service Fund - Insurance Retention
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 2,883,422	\$ 196,483	\$ 3,079,905	\$ -
Payments to suppliers	(1,384,019)	(134,664)	(1,518,683)	-
Payments to employees	(1,557,537)	(61,159)	(1,618,696)	-
Claims paid	-	-	-	(172,891)
Other receipts (payments)	316,167	(660)	315,507	7,246
Net cash provided by (used in) operating activities	258,033	-	258,033	(165,645)
<b>Cash Flows from Noncapital Financing Activities -</b>				
Operating transfers in from other funds	120,000	-	120,000	150,000
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of capital assets	(1,388,727)	-	(1,388,727)	-
Property taxes	1,155,806	-	1,155,806	-
Contributions received for capital lease payments	-	275,028	275,028	-
Principal, interest, and other costs paid on long-term debt	(775,893)	-	(775,893)	-
Principal and interest paid on capital lease	-	(291,282)	(291,282)	-
Net cash used in capital and related financing activities	(1,008,814)	(16,254)	(1,025,068)	-
<b>Cash Flows from Investing Activities -</b> Interest received on investments	82,952	16,254	99,206	25,141
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(547,829)	-	(547,829)	9,496
<b>Cash and Cash Equivalents -</b> Beginning of year	1,931,210	-	1,931,210	768,340
<b>Cash and Cash Equivalents -</b> End of year	<u>\$ 1,383,381</u>	<u>\$ -</u>	<u>\$ 1,383,381</u>	<u>\$ 777,836</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>				
Cash and cash equivalents	\$ 738,552	\$ -	\$ 738,552	\$ 777,836
Restricted assets (Note 6)	644,827	-	644,827	-
Total cash and cash equivalents	<u>\$ 1,383,379</u>	<u>\$ -</u>	<u>\$ 1,383,379</u>	<u>\$ 777,836</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>				
Operating loss	\$ (235,496)	\$ (66,110)	\$ (301,606)	\$ (166,675)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation	307,056	67,087	374,143	-
Amortization of bond discounts/premiums	2,626	-	2,626	-
Loss on sale of capital assets	41,452	-	41,452	-
Changes in assets and liabilities:				
Receivables	(144,539)	-	(144,539)	(5,186)
Due from other governmental units	(35,880)	201,448	165,568	-
Other assets	12,530	123	12,653	-
Accounts payable	335,014	318	335,332	6,216
Due to other funds	-	72,162	72,162	-
Accrued and other liabilities	(24,732)	(275,028)	(299,760)	-
Net cash provided by (used in) operating activities	<u>\$ 258,031</u>	<u>\$ -</u>	<u>\$ 258,031</u>	<u>\$ (165,645)</u>

**Supplemental Cash Flow Information** - There were no noncash transactions for the year ended June 30, 2006.

# City of Grosse Pointe Farms, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2006

	Pension Trust Funds	Agency Fund Tax Collection
<b>Assets</b>		
Cash and cash equivalents	\$ 616,682	\$ 210,051
Investments:		
Common stock	18,913,499	-
Mutual funds	24,154,847	-
Receivables:		
Interest	121,520	-
Other	27,056	-
Due from other governmental units	230	-
	<u>43,833,834</u>	<u>\$ 210,051</u>
<b>Liabilities</b>		
Accounts payable	20,969	\$ -
Due to other governmental units	233,553	210,051
	<u>254,522</u>	<u>\$ 210,051</u>
<b>Net Assets</b>		
Held in trust for pension benefits	40,689,802	
Held in trust for postemployment health care benefits	2,889,510	
	<u>\$ 43,579,312</u>	

# City of Grosse Pointe Farms, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

	Pension Trust Funds
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 1,557,254
Net increases to fair market value	<u>1,827,966</u>
Net investment income	3,385,220
Contributions:	
Employer	837,537
Employee	<u>268,628</u>
Total additions	4,491,385
<b>Deductions</b>	
Benefit payments	1,764,833
Health benefits	421,009
Refunds to withdrawing members	239,031
Administrative expenses	<u>115,907</u>
Total deductions	<u>2,540,780</u>
<b>Change in Net Assets</b>	1,950,605
<b>Net Assets Held in Trust for Pension Benefits</b>	
Beginning of year	<u>41,628,707</u>
End of year	<u><u>\$ 43,579,312</u></u>
<b><u>Net Assets</u></b>	
<b>Reserved for Pension Benefits - Beginning of year</b>	\$ 38,785,601
<b>Net Increase</b>	<u>1,904,201</u>
<b>Reserved for Pension Benefits - End of year</b>	<u><u>\$ 40,689,802</u></u>
<b>Reserved for Postemployment Health Care Benefits - Beginning of year</b>	\$ 2,843,106
<b>Net Increase</b>	<u>46,404</u>
<b>Reserved for Postemployment Health Care Benefits - End of year</b>	<u><u>\$ 2,889,510</u></u>

# **City of Grosse Pointe Farms, Michigan**

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## **Notes to Financial Statements June 30, 2006**

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Grosse Pointe Farms (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected seven-member council. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in the City's reporting entity.

**Jointly Governed Organization** - The City is a member of the Grosse Pointes-Clinton Refuse Disposal Authority joint venture, which provided refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the Cities of Grosse Pointe Park, Grosse Pointe, Grosse Pointe Shores, Harper Woods, Mount Clemens, Grosse Pointe Woods, and the Township of Clinton. As a result of financial difficulty, in April 1999, the Authority's governing board ceased operations. Complete financial statements for the Grosse Pointes-Clinton Refuse Disposal Authority joint venture can be obtained from the Authority's General Counsel: John J. Gillooly, Garan Lucow Miller, P.C, 1000 Woodbridge Street, Detroit, MI 48207, (313) 446-5501. The City is unaware of any circumstance that would cause an additional benefit or burden to the participating governments of the above joint venture in the near future.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

# **City of Grosse Pointe Farms, Michigan**

## **Notes to Financial Statements June 30, 2006**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and Trust Fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

# **City of Grosse Pointe Farms, Michigan**

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## **Notes to Financial Statements June 30, 2006**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Capital Projects Fund is used to account for the development of capital facilities other than those financed by the operations of the business-type activities.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the results of operations that provide water and sewer services to citizens and is financed by a user charge for the provision of those services.
- The Municipal Radio System Fund accounts for the financing of the municipal radio system utilized by the City and other local governments.

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for risk management services provided to other departments of the City on a cost reimbursement basis.
- The Pension Trust Funds account for the activities of the General Employees' and Public Safety Retirement Systems, which accumulate resources for pension and health care benefit payments to qualified general and public safety employees.
- The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. Agency fund activity consists of tax collections activity.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.



# **City of Grosse Pointe Farms, Michigan**

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## **Notes to Financial Statements June 30, 2006**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relates to charges to customers or other governments for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on February 28 of the following year, at which time penalties and interest are assessed.

The 2005 taxable valuation of the City totaled \$770,998,774, on which ad valorem taxes levied consisted of 10.450 mills for the City's operating purposes, 1.50 mills for debt service, and 1.30 mills for rubbish removal. The ad valorem taxes raised \$8,055,158 for general operations, \$1,155,806 for debt service, and \$1,001,674 for rubbish removal. These amounts are recorded in their respective funds as tax revenue.

# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - The unspent bond proceeds of the Water and Sewer Enterprise Fund's General Obligation Limited Tax Bond require amounts to be set aside for operations and maintenance and debt service. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 to 25 years
Utility systems	20 to 80 years
Buildings and building improvements	20 to 50 years
Vehicles	5 to 10 years
Office furnishings	10 to 20 years
Machinery and equipment	3 to 20 years

**Compensated Absences (Vacation and Sick Leave)** - The City allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and sick pay as it is earned. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate.)

# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Construction Code Act** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since July 1, 2000 is as follows:

Shortfall - July 1, 2005		\$ (342,784)
Current year building permit revenue	\$ 141,465	
Related expenses	<u>212,827</u>	
Net shortfall for the year ended June 30, 2006		<u>(71,362)</u>
Cumulative shortfall - June 30, 2006		<u>\$ (414,146)</u>

# **City of Grosse Pointe Farms, Michigan**

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## **Notes to Financial Statements June 30, 2006**

### **Note 2 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The General Employees' Retirement System and Public Safety Retirement System pension trust fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$5,420,964 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The City held deposits in 27 financial institutions as of June 30, 2006.

# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 2 - Deposits and Investments (Continued)

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Negotiable certificate of deposits	\$ 1,767,980	1.31 years
U.S. government agency obligations	3,003,093	3.05 years

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Negotiable certificate of deposits	\$ 1,767,980	Not rated	N/A
U.S. government agency obligations	3,003,093	AAA	S&P
Bank investment pool	863,148	AAAm	S&P
Mutual funds - Pension Funds	13,991,545	AAA	S&P
Mutual funds - Pension Funds	10,163,302	Not rated	N/A

#### Concentration of Credit Risk

The City places no limit on the amount that may be invested in any one issuer; however, the City's funds are limited by law in that investments in any one issuer (other than the U.S. government) may not exceed 5 percent of total investments. At June 30, 2006, there were no investments in any one issuer (other than the U.S. government) that exceeded 5 percent of total investments for the fiduciary funds.

# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 3 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
<b>Governmental Activities</b>				
Capital assets not being depreciated - Land	\$ 5,918,821	\$ -	\$ -	\$ 5,918,821
Capital assets being depreciated:				
Infrastructure	6,069,812	217,303	-	6,287,115
Land improvements	4,073,820	5,002,782	-	9,076,602
Buildings and improvements	8,652,025	148,472	-	8,800,497
Vehicles	2,818,741	321,745	(191,610)	2,948,876
Office furnishings	572,128	119,764	(16,399)	675,493
Machinery and equipment	335,635	19,511	-	355,146
Subtotal	22,522,161	5,829,577	(208,009)	28,143,729
Accumulated depreciation:				
Infrastructure	2,505,548	235,076	-	2,740,624
Land improvements	2,489,976	444,251	-	2,934,227
Buildings and improvements	1,621,860	277,993	-	1,899,853
Vehicles	1,409,376	292,926	(186,806)	1,515,496
Office furnishings	261,303	77,781	(16,399)	322,685
Machinery and equipment	75,276	39,997	-	115,273
Subtotal	8,363,339	1,368,024	(203,205)	9,528,158
Net capital assets being depreciated	14,158,822	4,461,553	(4,804)	18,615,571
Net capital assets	<u>\$ 20,077,643</u>	<u>\$ 4,461,553</u>	<u>\$ (4,804)</u>	<u>\$ 24,534,392</u>

# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 3 - Capital Assets (Continued)

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 45,482	\$ -	\$ -	\$ 45,482
Construction in progress	200,122	164,871	(228,178)	136,815
Subtotal	245,604	164,871	(228,178)	182,297
Capital assets being depreciated:				
Utility systems	15,269,325	1,223,855	13,664	16,506,844
Buildings and building improvements	1,101,969	-	74,038	1,176,007
Vehicles	240,815	-	-	240,815
Office furnishings	75,879	-	-	75,879
Machinery and equipment	1,973,855	-	99,024	2,072,879
Subtotal	18,661,843	1,223,855	186,726	20,072,424
Accumulated depreciation:				
Utility systems	2,413,243	228,544	-	2,641,787
Buildings and building improvements	902,033	34,385	-	936,418
Vehicles	52,690	10,750	-	63,440
Office furnishings	71,499	2,387	-	73,886
Machinery and equipment	369,636	98,077	-	467,713
Subtotal	3,809,101	374,143	-	4,183,244
Net capital assets being depreciated	14,852,742	849,712	186,726	15,889,180
Net capital assets	\$ 15,098,346	\$ 1,014,583	\$ (41,452)	\$ 16,071,477

Depreciation expense was charged to programs of the primary government as follows:

#### Governmental activities:

General government	\$ 130,932
Public safety	195,232
Public works	445,220
Recreation and culture	596,006
District Court	634

Total governmental activities \$ 1,368,024

#### Business-type activities:

Water and sewer	\$ 307,056
Municipal radio system	67,087

Total business-type activities \$ 374,143

# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Municipal Radio System	\$ 87,453
	Water and Sewer Fund	882
	Total General Fund	88,335
Nonmajor governmental funds	General Fund	500,000
	Total	\$ 588,335

Interfund balances represent routine and temporary cash flow assistance from the governmental funds until amounts are transferred from fund investment accounts.

Fund Transferred From	Fund Transferred To	Amount
General Fund	Nonmajor governmental funds	\$ 643,653
	Insurance Retention Fund	150,000
	Capital Projects Fund	1,397,100
	Water and Sewer Fund	120,000
	Total General Fund	2,310,753
Nonmajor governmental funds	Capital Projects Fund	26,966
	Nonmajor governmental funds	195,000
	Total nonmajor governmental funds	221,966
	Total	\$ 2,532,719

Transfers provide funding for capital projects, capital acquisitions, and debt services.



# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General obligation bonds:							
Harbor Project Bonds							
Amount of issue - \$4,300,000	3.50% -	\$75,000 -					
Maturing through 2026	4.00%	\$350,000	\$ -	\$ 4,300,000	\$ -	\$ 4,300,000	\$ 75,000
Unamortized premium of issuance			-	37,433	-	37,433	1,872
2004 Recreation Building Bonds							
Amount of issue - \$2,500,000	2.50% -	\$46,875 -					
Maturing through 2025	4.50%	\$250,000	2,500,000		-	2,500,000	46,875
Unamortized discount of issuance			(7,024)	-	(370)	(6,654)	(370)
Total bond obligations			2,492,976	4,337,433	(370)	6,830,779	123,377
Other long-term obligations:							
Provision for uninsured losses			282,000	-	-	282,000	20,000
Compensated absences			875,913	476,790	370,409	982,294	434,634
Total governmental activities			3,650,889	4,814,223	370,039	8,095,073	578,011
<b>Business-type Activities</b>							
General obligation bonds:							
2000 Lakeside Sewer Separation							
Amount of issue - \$3,205,000	5.00% -	\$125,000 -					
Maturing through 2021	5.40%	\$250,000	2,800,000	-	125,000	2,675,000	125,000
Unamortized discount of issuance			(35,454)	-	(2,404)	(33,050)	(2,404)
1999 Lakeside Sewer Separation							
Amount of issue - \$7,625,000		\$340,000 -					
Maturing through 2021	2.50%	\$480,000	6,385,000	-	330,000	6,055,000	340,000
2004 General Obligation Bond							
Amount of issue - \$1,500,000	2.50% -	\$28,125 -					
Maturing through 2025	4.50%	\$150,000	1,500,000	-	-	1,500,000	75,000
Unamortized discount of issuance			(4,214)	-	(222)	(3,992)	(222)
Capital lease obligation:							
2001 Radio System Lease							
Amount of issue - \$1,230,000							
Maturing through 2006	-	-	275,028	-	275,028	-	-
Total bond obligations			10,920,360	-	727,402	10,192,958	537,374
Other long-term obligations - Compensated absences							
			49,840	66,280	23,723	92,397	35,542
Total business-type activities			10,970,200	66,280	751,125	10,285,355	572,916
Total			\$ 14,621,089	\$ 4,880,503	\$ 1,121,164	\$ 18,380,428	\$ 1,150,928

# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental and business-type bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	48,747	268,889	317,636	490,499	348,599	839,098
2008	123,747	266,405	390,152	495,499	333,145	828,644
2009	164,372	261,897	426,269	514,874	317,403	832,277
2010	164,372	256,600	420,972	549,874	301,200	851,074
2011	195,622	250,639	446,261	578,624	283,098	861,722
2012-2016	1,440,610	1,099,063	2,539,673	3,180,620	1,115,563	4,296,183
2017-2021	2,090,610	745,912	2,836,522	3,858,630	525,070	4,383,700
2022-2026	2,602,699	254,738	2,857,437	524,338	48,143	572,481
Total	\$ 6,830,779	\$ 3,404,143	\$ 10,234,922	\$ 10,192,958	\$ 3,272,221	\$ 13,465,179

### Note 6 - Restricted Assets

During the year ended June 30, 2005, the City issued debt in the form of a \$4,000,000 General Obligation Limited Tax Bond. The City has total unspent bond proceeds of \$644,827 at June 30, 2006. This entire amount has been restricted in the Water and Sewer Fund.

### Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims in excess of \$375,000 and participates in the Michigan Municipal League risk pool for claims relating to property loss and general liability; the City is uninsured for workers' compensation claims up to \$375,000. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 7 - Risk Management (Continued)

#### Medical

The City is self-funding medical benefits up to a retention amount, at which time the City's reinsurance coverage begins. The self-funding program is done in conjunction with the cities of Grosse Pointe, Grosse Pointe Park, Grosse Pointe Woods, and the Village of Grosse Pointe Shores. The Village of Grosse Pointe Shores serves as the administrative agent for the program; however, each municipality is responsible for its individual claims.

The City estimates the liability for medical benefits claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The City's liability is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. The estimated liability for medical claims at June 30, 2006, as well as the claims incurred during the period from May 1, 2006 through June 30, 2006 is not significant.

#### Workers' Compensation

The City is self-insured for workers' compensation claims. Under the program, the City is held liable for the first \$375,000 of any occurrence. The City has purchased excess insurance to cover claims greater than \$375,000.

The City estimates the liability for workers' compensation and medical benefits that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported, which includes estimates of both future payments of losses and related claim adjustment expense, both allocated and unallocated. The liability is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. Any adjustments resulting from the settlement of losses will be reflected in earnings at the time the adjustments are determined. These estimates are recorded in the Insurance Retention Internal Service Fund and within the governmental activities and business-type activities columns of the statement of net assets. Changes in the estimated liability for the past two fiscal years were as follows:

	2006	2005
Unpaid claims - Beginning of year	\$ 282,000	\$ 282,000
Incurred claims (including claims incurred but not reported)	166,675	193,319
Claim payments	(166,675)	(193,319)
Unpaid claims - End of year	<u>\$ 282,000</u>	<u>\$ 282,000</u>

# City of Grosse Pointe Farms, Michigan

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## Notes to Financial Statements June 30, 2006

### Note 8 - Retirement Plans

#### Description of Plans

The City contributes to two retirement plans, the Public Safety Retirement System and the General Employees' Retirement System. The Public Safety Retirement System and the General Employees' Retirement System are the administrators of single-employer defined benefit public employee retirement systems that cover all police and fire employees and substantially all other general employees, respectively. The plans do not issue separate financial reports.

**Public Safety Retirement System** - The system provides retirement, disability, and death benefits to plan members and their beneficiaries. In addition to providing pension benefits, the system provides health care benefits (in accordance with labor contracts) for plan members if they reach the normal retirement age while working for the City. Currently, 33 retirees are eligible and receiving health care benefits. At June 30, 2005, the date of the most recent actuarial valuation, membership consisted of 43 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 38 current active employees.

**General Employees' Retirement System** - The system provides retirement, disability, and death benefits to plan members and their beneficiaries. In addition to providing pension benefits, the system provides health care benefits (in accordance with labor contracts) for plan members if they reach the normal retirement age while working for the City. Currently, 40 retirees are eligible and receiving health care benefits. At June 30, 2005, the date of the most recent actuarial valuation, membership consisted of 42 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 64 current active employees.

#### Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Please refer to Note 1 for further significant accounting policies.

# **City of Grosse Pointe Farms, Michigan**

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## **Notes to Financial Statements June 30, 2006**

### **Note 8 - Retirement Plans (Continued)**

**Public Safety Retirement System** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires contributions from the employees of 5 percent. Future amendments to benefit provisions would involve negotiation with these collective bargaining units. Employer contributions to the system to fund health care benefits are voluntary. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**General Employees' Retirement System** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the Police Officers' Association of Michigan - Dispatchers employees of 3 percent of the first \$4,200 of gross wages and 5 percent of remaining gross wages. Future amendments to benefit provisions would involve negotiation with these collective bargaining units. All other employees' collective bargaining units require a contribution from employees of 3.5 percent of all gross wages. Employer contributions to the system to fund health care benefits are voluntary. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

#### **Annual Pension Cost**

**Public Safety Retirement System** - For the fiscal year ended June 30, 2006, the City's annual pension cost of \$56,424 was equal to the required and actual pension contribution. The annual required pension contribution was determined as part of an actuarial valuation at June 30, 2004, using the entry age actuarial valuation method. Significant actuarial assumptions used include: (i) a 7.5 percent investment rate of return, (ii) projected salary increases of 4.5 percent to 8.3 percent per year, and (iii) cost-of-living adjustments at 2.5 percent per year. Assumption (ii) includes a wage inflation component of 4.5 percent.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years.

# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 8 - Retirement Plans (Continued)

**General Employees' Retirement System** - For the fiscal year ended June 30, 2006, the City's annual pension cost of \$549,175 was equal to the required and actual pension contribution. The annual required pension contribution was determined as part of an actuarial valuation at June 30, 2004, using the entry age actuarial valuation method. Significant actuarial assumptions used include: (i) a 7.5 percent investment rate of return, (ii) projected salary increases of 5.0 percent to 8.8 percent per year, and (iii) cost-of-living adjustments at varying percents depending on retirement date. Assumption (ii) includes a wage inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years. Employer contributions to the retirement systems for the year ended June 30, 2006 pertain to the funding of postretirement health care benefits.

	Fiscal Year Ended June 30		
	2004	2005	2006
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 172,278	\$ 354,461	\$ 549,175
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Public Safety Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ 56,424
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 8 - Retirement Plans (Continued)

	Actuarial Valuation as of June 30		
	2003	2004	2005
General Employees Retirement System:			
Actuarial value of assets	\$ 14,317,582	\$ 13,916,791	\$ 14,087,520
Actuarial accrued liability (AAL)	13,854,511	15,692,732	16,337,986
Overfunded (Unfunded) AAL (UAAL)	463,071	(1,775,941)	(2,250,466)
Funded ratio (percent)	103.3%	88.7%	86.2%
Covered payroll	\$ 2,949,385	\$ 3,022,261	\$ 2,953,576
UAAL as a percentage of covered payroll	N/A	58.8%	76.2%
Public Safety Retirement System:			
Actuarial value of assets	\$ 25,935,581	\$ 24,902,998	\$ 24,716,840
Actuarial accrued liability (AAL)	20,050,945	20,774,538	21,729,319
Overfunded AAL	5,884,636	4,128,460	2,987,521
Funded ratio (percent)	129.3%	119.9%	113.7%
Covered payroll	\$ 2,377,414	\$ 2,468,182	\$ 2,568,917
UAAL as a percentage of covered payroll	N/A	N/A	N/A

**Reserves** - As of June 30, 2006, the plans' legally required reserves have been fully funded as follows:

	General Employees' Retirement System	Public Safety Retirement System	Total
Reserve for employees' contributions	\$ 2,431,740	\$ 1,958,287	\$ 4,390,027
Reserve for employers' contributions	6,250,023	11,109,092	17,359,115
Reserve for retired benefit payments	6,461,169	12,479,489	18,940,658
Total reserve for pension benefits	15,142,932	25,546,868	40,689,800
Reserve for health benefits	474,483	2,415,029	2,889,512
Total	\$ 15,617,415	\$ 27,961,897	\$ 43,579,312

# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 8 - Retirement Plans (Continued)

#### Statement of Net Assets

	Pension Trust Funds		
	General Employees' Retirement System	Public Safety Retirement System	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 310,246	\$ 306,436	\$ 616,682
Investments:			
Common stock	6,711,358	12,202,141	18,913,499
Mutual funds	8,659,996	15,494,851	24,154,847
Receivables:			
Interest	43,732	77,788	121,520
Other	12,670	14,386	27,056
Due from other governmental units	-	230	230
Total assets	15,738,002	28,095,832	43,833,834
<b>Liabilities</b>			
Accounts payable	7,544	13,425	20,969
Due to other governmental units	113,043	120,510	233,553
Total liabilities	120,587	133,935	254,522
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u><u>\$ 15,617,415</u></u>	<u><u>\$ 27,961,897</u></u>	<u><u>\$ 43,579,312</u></u>



# City of Grosse Pointe Farms, Michigan

## Notes to Financial Statements June 30, 2006

### Note 8 - Retirement Plans (Continued)

#### Statement of Changes in Net Assets

	General Employees' Retirement System	Public Safety Retirement System	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 550,235	\$ 1,007,019	\$ 1,557,254
Net increases to fair market value	638,166	1,189,800	1,827,966
Net investment income	1,188,401	2,196,819	3,385,220
Contributions:			
Employer	680,657	156,880	837,537
Employee	126,751	141,877	268,628
Total additions	1,995,809	2,495,576	4,491,385
<b>Deductions</b>			
Benefit payments	708,428	1,056,405	1,764,833
Health benefits	201,188	219,821	421,009
Refunds to withdrawing members	-	239,031	239,031
Administrative expenses	43,233	72,674	115,907
Total deductions	952,849	1,587,931	2,540,780
<b>Net Increase</b>	1,042,960	907,645	1,950,605
<b>Net Assets Held in Trust for Pension Benefits</b>			
Beginning of year	14,574,455	27,054,252	41,628,707
End of year	<u>\$ 15,617,415</u>	<u>\$ 27,961,897</u>	<u>\$ 43,579,312</u>
<b>Net Assets</b>			
<b>Reserved for Pension Benefits - Beginning of year</b>	\$ 14,071,509	\$ 24,714,092	\$ 38,785,601
<b>Net Increase</b>	1,071,424	832,777	1,904,201
<b>Reserved for Pension Benefits - End of year</b>	<u>\$ 15,142,933</u>	<u>\$ 25,546,869</u>	<u>\$ 40,689,802</u>
<b>Reserved for Postemployment Health Care Benefits - Beginning of year</b>	\$ 502,946	\$ 2,340,160	\$ 2,843,106
<b>Net Increase (Decrease)</b>	(28,464)	74,868	46,404
<b>Reserved for Postemployment Health Care Benefits - End of year</b>	<u>\$ 474,482</u>	<u>\$ 2,415,028</u>	<u>\$ 2,889,510</u>

# **City of Grosse Pointe Farms, Michigan**

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## **Notes to Financial Statements June 30, 2006**

### **Note 8 - Retirement Plans (Continued)**

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

## **Required Supplemental Information**

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# City of Grosse Pointe Farms, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 4,073,715	\$ 4,073,715	\$ 4,073,715	\$ -
<b>Resources (Inflows)</b>				
Property taxes	9,251,266	9,314,636	9,372,015	57,379
Licenses and permits	271,200	271,700	280,651	8,951
Federal sources	-	8,620	8,622	2
State sources	822,000	822,000	828,785	6,785
Charges for services	979,082	1,188,482	1,243,038	54,556
Fines and forfeitures	429,000	381,500	409,959	28,459
Interest	260,000	425,000	439,622	14,622
Other	82,000	123,810	162,589	38,779
Total resources (inflows)	16,168,263	16,609,463	16,818,996	209,533
<b>Charges to Appropriations (Outflows)</b>				
General government	1,034,000	1,009,000	964,324	44,676
Public safety	4,527,660	4,452,160	4,388,644	63,516
Public works and streets	1,615,900	1,523,700	1,447,373	76,327
Public service	480,910	474,710	475,135	(425)
Municipal court	295,350	280,650	272,935	7,715
Recreation and culture	1,043,236	1,118,286	1,104,767	13,519
Other	1,706,454	1,695,638	1,687,616	8,022
Transfers to other funds	1,373,038	2,310,754	2,310,753	1
Total charges to appropriations (outflows)	12,076,548	12,864,898	12,651,547	213,351
<b>Fund Balance - End of year</b>	<b>\$ 4,091,715</b>	<b>\$ 3,744,565</b>	<b>\$ 4,167,449</b>	<b>\$ 422,884</b>

# **City of Grosse Pointe Farms, Michigan**

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## **Note to Required Supplemental Information June 30, 2006**

### **Note - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line item. The legal level of budgetary control adopted by the governing body is the line item detail level. A comparison of the budget to actual expenditures at the line item level is available from the City controller's office.

Encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City did not incur expenditures that were in significant excess of the amounts budgeted.

# City of Grosse Pointe Farms, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2006

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (UAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<b>General Employees' Retirement System</b>						
06/30/00	\$ 14,339,521	\$ 10,267,564	\$ 4,071,957	139.7	\$ 2,484,943	-
06/30/01	15,030,637	12,277,957	2,752,680	122.4	2,766,275	-
06/30/02	14,823,722	13,004,279	1,819,443	114.0	2,784,696	-
06/30/03	14,317,582	13,854,511	463,071	103.3	2,949,385	-
06/30/04	13,916,791	15,692,732	(1,775,941)	88.7	3,022,261	58.8
06/30/05	14,087,520	16,337,986	(2,250,466)	86.2	2,953,576	76.2
<b>Public Safety Retirement System</b>						
06/30/00	26,164,064	15,290,385	10,873,679	171.1	1,877,166	-
06/30/01	27,487,631	17,616,822	9,870,809	156.0	1,994,776	-
06/30/02	27,121,390	18,632,029	8,489,361	145.6	2,299,362	-
06/30/03	25,935,581	20,050,945	5,884,636	129.3	2,377,414	-
06/30/04	24,902,998	20,774,538	4,128,460	120	2,468,182	-
06/30/05	24,716,840	21,729,319	2,987,521	113.7	2,568,917	-

# City of Grosse Pointe Farms, Michigan

## Required Supplemental Information Schedule of Employer Contributions June 30, 2006

### General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
06/30/00	6/30/98	\$ -	-
06/30/01	6/30/99	-	-
06/30/02	6/30/00	-	-
06/30/03	6/30/01	54,764	100%
06/30/04	6/30/02	172,278	100%
06/30/05	6/30/03	354,461	100%
06/30/06	6/30/04	549,175	100%

\* The additional contributions reflected in the financial statements were for health care benefits.

### Public Safety Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
06/30/00	6/30/98	\$ -	-
06/30/01	6/30/99	-	-
06/30/02	6/30/00	-	-
06/30/03	6/30/01	-	-
06/30/04	6/30/02	-	-
06/30/05	6/30/03	-	-
06/30/06	6/30/04	56,424	100%

\* The contributions reflected in the financial statements were for health care benefits.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation date, follows:

### General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	10 years from July 1, 2005
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	5.0% - 8.8%
*Includes inflation at	4.5%
Cost of living adjustments	2.5% per year on the base retirement allowance (noncompounding) on January 1 after being retired six months. The maximum number of increases is 15.

# City of Grosse Pointe Farms, Michigan

## Required Supplemental Information Schedule of Employer Contributions (Continued) June 30, 2006

Group	Applicable to Retirements with an Effective Date on or After
Department heads	July 1, 1991
Clerical	July 1, 1991
Dispatchers	January 1, 1992

For retirees and beneficiaries on the rolls as of June 30, 1991, a minimum retirement allowance was established equal to \$25/month times the number of years of credited service. The \$25 amount was reduced for optional forms of payment.

For department head and clerical members who retire effective on or after July 1, 2000, the amount of pension and annuity payable shall be increased each January 1 after being retired six months by 2.50 percent, compounded, of the pension and annuity that would have been paid in the absence of cost of living adjustments.

### Public Safety Retirement System

Actuarial cost method

Entry age

Amortization method

Level percent of payroll

Amortization period (perpetual)

10 years from July 1, 2005

Asset valuation method

4-year smoothed market

Actuarial assumptions:

Investment rate of return

7.5%

Projected salary increases\*

4.5% - 8.3%

\*Includes inflation at

4.5%

Cost of living adjustments

For retirements effective on or after June 30, 1991, a minimum retirement allowance was established equal to \$25/month times the number of years of credited service. The \$25 amount was reduced for optional forms of payment.

For retirements effective on or after January 1, 1992, the amount of pension and annuity payable shall be increased by 2.50%, noncompounded, of the pension and annuity that would have been paid in the absences of cost of living adjustments. The maximum number of increases is 10.



## **Other Supplemental Information**

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# City of Grosse Pointe Farms, Michigan

	Nonmajor Special Revenue			
			Cable	Community
	Major Streets	Local Streets	Proceeds	Development
				Block Grant
<b>Assets</b>				
Cash and investments	\$ 145,449	\$ 438,188	\$ -	\$ -
Receivables	-	-	-	-
Accrued interest	5,917	13,177	-	-
Due from other funds	-	-	-	-
Due from other governmental units	-	-	-	-
Total assets	<u>\$ 151,366</u>	<u>\$ 451,365</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 14,093	\$ 22,973	\$ -	\$ -
Accrued and other liabilities	397	4,990	-	-
Total liabilities	14,490	27,963	-	-
<b>Fund Balances - Unreserved</b>	<u>136,876</u>	<u>423,402</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 151,366</u>	<u>\$ 451,365</u>	<u>\$ -</u>	<u>\$ -</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006**

Funds		Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
Recycling Program	Budget Stabilization	Debt Service	
\$ 105,090	\$ -	\$ -	\$ 688,727
1,216	-	-	1,216
16,033	-	-	35,127
-	500,000	-	500,000
2,951	-	-	2,951
<b>\$ 125,290</b>	<b>\$ 500,000</b>	<b>\$ -</b>	<b>\$ 1,228,021</b>
\$ 8,272	\$ -	\$ -	\$ 45,338
-	-	-	5,387
8,272	-	-	50,725
117,018	500,000	-	1,177,296
<b>\$ 125,290</b>	<b>\$ 500,000</b>	<b>\$ -</b>	<b>\$ 1,228,021</b>

# City of Grosse Pointe Farms, Michigan

	Special Revenue Funds					
	Major Streets	Local Streets	Cable Proceeds	Community Development Block Grant	Recycling Program	Budget Stabilization
<b>Revenue</b>						
Federal sources	\$ -	\$ -	\$ -	\$ 8,903	\$ -	\$ -
State sources	400,211	161,259	-	-	-	-
Charges for services	-	-	-	-	113,087	-
Interest income	10,854	13,182	-	-	3,321	-
Total revenue	411,065	174,441	-	8,903	116,408	-
<b>Expenditures</b>						
Current:						
Public works and streets	254,309	785,995	-	-	-	-
Public service					107,615	
Other	-	-	-	8,903	-	-
Debt service	-	-	-	-	-	-
Total expenditures	254,309	785,995	-	8,903	107,615	-
<b>Excess of Revenue Over (Under) Expenditures</b>	156,756	(611,554)	-	-	8,793	-
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	640,000	-	-	-	-
Transfers out	(195,000)	-	(26,966)	-	-	-
Total other financing sources (uses)	(195,000)	640,000	(26,966)	-	-	-
<b>Net Change in Fund Balances</b>	(38,244)	28,446	(26,966)	-	8,793	-
<b>Fund Balances - Beginning of year</b>	175,120	394,956	26,966	-	108,225	500,000
<b>Fund Balances - End of year</b>	<u>\$ 136,876</u>	<u>\$ 423,402</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,018</u>	<u>\$ 500,000</u>

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**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2006**

<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 8,903
-	561,470
-	113,087
<u>-</u>	<u>27,357</u>
-	710,817
-	1,040,304
-	107,615
-	8,903
<u>198,653</u>	<u>198,653</u>
<u>198,653</u>	<u>1,355,475</u>
(198,653)	(644,658)
198,653	838,653
<u>-</u>	<u>(221,966)</u>
<u>198,653</u>	<u>616,687</u>
-	(27,971)
<u>-</u>	<u>1,205,267</u>
<u>\$ -</u>	<u>\$ 1,177,296</u>

# City of Grosse Pointe Farms, Michigan

## Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds Year Ended June 30, 2006

### Major Streets

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 175,120	\$ 175,120	\$ 175,120	\$ -
<b>Resources (Inflows)</b>				
State sources	400,000	399,750	400,211	461
Interest	<u>1,200</u>	<u>9,700</u>	<u>10,854</u>	<u>1,154</u>
Total resources (inflows)	576,320	584,570	586,185	1,615
<b>Charges to Appropriations (Outflows)</b>				
Public works and streets	244,200	252,450	254,309	(1,859)
Transfers to other funds	<u>195,000</u>	<u>195,000</u>	<u>195,000</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>439,200</u>	<u>447,450</u>	<u>449,309</u>	<u>(1,859)</u>
<b>Fund Balance - End of year</b>	<b><u>\$ 137,120</u></b>	<b><u>\$ 137,120</u></b>	<b><u>\$ 136,876</u></b>	<b><u>\$ (244)</u></b>

### Local Streets

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 394,956	\$ 394,956	\$ 394,956	\$ -
<b>Resources (Inflows)</b>				
State sources	165,000	160,000	161,259	1,259
Interest	200	10,200	13,182	2,982
Transfers from other funds	<u>753,550</u>	<u>695,850</u>	<u>640,000</u>	<u>(55,850)</u>
Total resources (inflows)	1,313,706	1,261,006	1,209,397	(51,609)
<b>Charges to Appropriations (Outflows) -</b>				
Public works and streets	<u>918,750</u>	<u>866,050</u>	<u>785,995</u>	<u>80,055</u>
<b>Fund Balance - End of year</b>	<b><u>\$ 394,956</u></b>	<b><u>\$ 394,956</u></b>	<b><u>\$ 423,402</u></b>	<b><u>\$ 28,446</u></b>

# City of Grosse Pointe Farms, Michigan

## Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds (Continued) Year Ended June 30, 2006

### Cable Proceeds

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 26,966	\$ 26,966	\$ 26,966	\$ -
<b>Charges to Appropriations (Outflows)</b> - Transfers to other funds	27,000	27,000	26,966	34
<b>Fund Balance</b> - End of year	<u>\$ (34)</u>	<u>\$ (34)</u>	<u>\$ -</u>	<u>\$ 34</u>

### Community Development Block Grant

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ -	\$ -	\$ -	\$ -
<b>Resources (Inflows)</b> - Federal sources	54,000	8,904	8,903	(1)
<b>Charges to Appropriations (Outflows)</b> - Other	54,000	8,904	8,903	1
<b>Fund Balance</b> - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# City of Grosse Pointe Farms, Michigan

## Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds (Continued)

Year Ended June 30, 2006

### Recycling Program

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 108,225	\$ 108,225	\$ 108,225	\$ -
<b>Resources (Inflows)</b>				
Charges for services	113,000	113,000	113,087	87
Interest	500	500	3,321	2,821
Total resources (inflows)	221,725	221,725	224,633	2,908
<b>Charges to Appropriations (Outflows) -</b>				
Public service	113,500	113,500	107,615	5,885
<b>Fund Balance - End of year</b>	<u><u>\$ 108,225</u></u>	<u><u>\$ 108,225</u></u>	<u><u>\$ 117,018</u></u>	<u><u>\$ 8,793</u></u>

### Budget Stabilization

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 500,000	\$ 500,000	\$ 500,000	\$ -
<b>Resources (Inflows)</b>	-	-	-	-
<b>Charges to Appropriations (Outflows)</b>	-	-	-	-
<b>Fund Balance - End of year</b>	<u><u>\$ 500,000</u></u>	<u><u>\$ 500,000</u></u>	<u><u>\$ 500,000</u></u>	<u><u>\$ -</u></u>



# City of Grosse Pointe Farms, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2006

	Pension Trust Funds			Agency Funds
	General			
	Employees'	Public Safety		
	Retirement	Retirement		
	System	System	Total	Tax Collection
<b>Assets</b>				
Cash and cash equivalents	\$ 310,246	\$ 306,436	\$ 616,682	\$ 210,051
Investments:				
Common stock	6,711,358	12,202,141	18,913,499	-
Mutual funds	8,659,996	15,494,851	24,154,847	-
Receivables:				
Interest	43,732	77,788	121,520	-
Other	12,670	14,386	27,056	-
Due from other governmental units	-	230	230	-
Total assets	15,738,002	28,095,832	43,833,834	<u><u>\$ 210,051</u></u>
<b>Liabilities</b>				
Accounts payable	7,544	13,425	20,969	\$ -
Due to other governmental units	113,043	120,510	233,553	210,051
Total liabilities	120,587	133,935	254,522	<u><u>\$ 210,051</u></u>
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u><u>\$ 15,617,415</u></u>	<u><u>\$ 27,961,897</u></u>	<u><u>\$ 43,579,312</u></u>	

# City of Grosse Pointe Farms, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2006

	General Employees' Retirement System	Public Safety Retirement System	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 550,235	\$ 1,007,019	\$ 1,557,254
Net increases to fair market value	<u>638,166</u>	<u>1,189,800</u>	<u>1,827,966</u>
Net investment income	1,188,401	2,196,819	3,385,220
Contributions:			
Employer	680,657	156,880	837,537
Employee	<u>126,751</u>	<u>141,877</u>	<u>268,628</u>
Total additions	1,995,809	2,495,576	4,491,385
<b>Deductions</b>			
Benefit payments	708,428	1,056,405	1,764,833
Health benefits	201,188	219,821	421,009
Refunds to withdrawing members	-	239,031	239,031
Administrative expenses	<u>43,233</u>	<u>72,674</u>	<u>115,907</u>
Total deductions	<u>952,849</u>	<u>1,587,931</u>	<u>2,540,780</u>
<b>Net Increase</b>	1,042,960	907,645	1,950,605
<b>Net Assets Held in Trust for Pension Benefits</b>			
Beginning of year	<u>14,574,455</u>	<u>27,054,252</u>	<u>41,628,707</u>
End of year	<u><b>\$ 15,617,415</b></u>	<u><b>\$ 27,961,897</b></u>	<u><b>\$ 43,579,312</b></u>

# City of Grosse Pointe Farms, Michigan

## Other Supplemental Information Statement of Changes in Assets and Liabilities Agency Fund Year Ended June 30, 2006

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
<b><u>Tax Collection</u></b>				
<b>Assets</b> - Cash and cash equivalents	<b><u>\$ 67,307</u></b>	<b><u>\$ 33,563,904</u></b>	<b><u>\$ 33,421,160</u></b>	<b><u>\$ 210,051</u></b>
<b>Liabilities</b> - Due to other governmental units	<b><u>\$ 67,307</u></b>	<b><u>\$ 33,563,904</u></b>	<b><u>\$ 33,421,160</u></b>	<b><u>\$ 210,051</u></b>

## Statistical Section

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This part of the comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

The statistical section is organized into the following main categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

## **Financial Trends**

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These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

# City of Grosse Pointe Farms, Michigan

## Net Assets by Component Last Four Fiscal Years (Accrual Basis of Accounting)

	June 30			
	2003	2004	2005	2006
<b>Governmental Activities</b>				
Invested in capital assets - Net of related debt	\$ 15,701,000	\$ 16,485,000	\$ 17,585,000	\$ 17,642,000
Restricted	492,000	345,000	571,000	560,000
Unrestricted	<u>5,566,000</u>	<u>5,904,000</u>	<u>5,419,000</u>	<u>5,547,000</u>
Total net assets	<u><b>\$ 21,759,000</b></u>	<u><b>\$ 22,734,000</b></u>	<u><b>\$ 23,575,000</b></u>	<u><b>\$ 23,749,000</b></u>
<b>Business-type Activities</b>				
Invested in capital assets - Net of related debt	\$ 4,635,000	\$ 5,159,000	\$ 5,695,000	\$ 6,523,000
Restricted	21,000	10,000	-	-
Unrestricted	<u>1,257,000</u>	<u>1,052,000</u>	<u>1,128,000</u>	<u>994,000</u>
Total net assets	<u><b>\$ 5,913,000</b></u>	<u><b>\$ 6,221,000</b></u>	<u><b>\$ 6,823,000</b></u>	<u><b>\$ 7,517,000</b></u>
<b>Primary Government in Total</b>				
Invested in capital assets - Net of related debt	20,337,000	\$ 21,644,000	\$ 23,280,000	\$ 24,165,000
Restricted	513,000	355,000	571,000	560,000
Unrestricted	<u>6,822,000</u>	<u>6,956,000</u>	<u>6,547,000</u>	<u>6,541,000</u>
Total net assets	<u><b>\$ 27,672,000</b></u>	<u><b>\$ 28,955,000</b></u>	<u><b>\$ 30,398,000</b></u>	<u><b>\$ 31,266,000</b></u>

# City of Grosse Pointe Farms, Michigan

## Changes in Net Assets Last Four Fiscal Years (Accrual Basis of Accounting)

### Changes in Governmental Net Assets

	Year Ended June 30			
	2003	2004	2005	2006
<b>Expenses</b>				
General government	\$ 2,171,022	\$ 2,552,250	\$ 3,251,023	\$ 3,032,307
Municipal court	246,518	260,245	279,031	273,569
Public safety	3,899,790	4,465,538	4,607,276	4,755,663
Public works	3,130,507	3,028,574	2,919,866	3,282,469
Recreation and culture	1,015,596	1,157,937	1,234,323	1,700,773
Interest on long-term debt	14,976	4,305	35,908	260,050
Total governmental activities	10,478,409	11,468,849	12,327,427	13,304,831
<b>Program Revenues</b>				
Charges for services:				
Municipal court	131,037	150,907	144,116	167,030
Public safety	625,247	717,758	664,651	600,677
Public works	121,833	120,780	126,938	114,641
General government	142,428	125,513	192,795	293,764
Recreation and culture	248,167	271,122	272,274	406,907
Total charges for services	1,268,712	1,386,080	1,400,774	1,583,019
Operating grants and contributions	58,775	701,485	1,055,255	579,164
Total program revenue	1,327,487	2,087,565	2,456,029	2,162,183
<b>Net Expense</b>	(9,150,922)	(9,381,284)	(9,871,398)	(11,142,648)
<b>General Revenues</b>				
Property taxes	8,677,149	8,791,286	9,081,308	9,372,015
State-shared revenues	1,489,794	862,438	833,417	823,981
Interest	324,100	261,541	330,665	614,319
Franchise fees and other	620,878	560,250	587,675	626,305
Total general revenues	11,111,921	10,475,515	10,833,065	11,436,620
<b>Transfers</b>	(335,000)	(120,000)	(120,000)	(120,000)
<b>Change in Net Assets</b>	<u>\$ 1,625,999</u>	<u>\$ 974,231</u>	<u>\$ 841,667</u>	<u>\$ 173,972</u>

# City of Grosse Pointe Farms, Michigan

## Changes in Net Assets (Continued) Last Four Fiscal Years (Accrual Basis of Accounting)

### Changes in Business-type Net Assets

	Year Ended June 30			
	2003	2004	2005	2006
<b>Operating Revenue</b>				
Sale of water	\$1,152,639	\$1,070,940	\$1,093,009	\$1,240,062
Sewage disposal charges	1,546,323	1,498,476	1,512,239	1,754,014
Radio system charges	159,169	175,360	181,518	196,483
Other charges for services	525,243	473,974	546,129	667,958
Total operating revenue	3,383,374	3,218,750	3,332,895	3,858,517
<b>Operating Expenses</b>				
Cost of water produced/purchased	1,014,566	1,000,727	1,074,277	1,142,976
Cost of sewage treatment	1,754,262	1,922,395	1,791,876	2,108,862
Radio system costs	159,169	175,359	181,517	195,506
Billing and administrative costs	269,950	316,851	272,902	338,636
Depreciation	353,200	344,466	342,536	374,143
Total operating expenses	3,551,147	3,759,798	3,663,108	4,160,123
<b>Operating Loss</b>	(167,773)	(541,048)	(330,213)	(301,606)
<b>Nonoperating Revenue (Expense)</b>				
Property taxes	1,031,421	1,067,832	1,110,873	1,155,806
Investment income	69,772	50,066	68,086	99,206
Interest expense	(412,226)	(388,521)	(366,772)	(379,704)
<b>Income - Before transfer from other funds</b>	521,194	188,329	481,974	573,702
<b>Transfers from Other Funds</b>	335,000	120,000	120,000	120,000
<b>Change in Net Assets</b>	<u>\$ 856,194</u>	<u>\$ 308,329</u>	<u>\$ 601,974</u>	<u>\$ 693,702</u>



# City of Grosse Pointe Farms, Michigan

## Fund Balances of Governmental Funds Last Ten Fiscal Years (Modified Accrual Basis of Accounting)

	June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund:										
Reserved	\$ 524,140	\$ 1,125,472	\$ 1,211,348	\$ 1,456,524	\$ 1,428,730	\$ 1,596,528	\$ 1,136,223	\$ 1,699,746	\$ 1,649,934	\$ 1,540,284
Unreserved	<u>845,494</u>	<u>931,103</u>	<u>1,295,058</u>	<u>1,430,279</u>	<u>2,437,322</u>	<u>2,278,866</u>	<u>2,502,676</u>	<u>2,179,571</u>	<u>2,423,781</u>	<u>2,627,165</u>
Total General Fund	1,369,634	2,056,575	2,506,406	2,886,803	3,866,052	3,875,394	3,638,899	3,879,317	4,073,715	4,167,449
All other governmental funds -										
Unreserved, reported in:										
Special revenue funds	724,358	516,357	686,473	868,164	962,776	809,916	1,006,457	997,804	1,205,267	1,177,296
Capital project funds	<u>579,616</u>	<u>637,364</u>	<u>569,241</u>	<u>1,081,148</u>	<u>1,753,055</u>	<u>2,399,893</u>	<u>1,422,592</u>	<u>1,372,717</u>	<u>940,695</u>	<u>1,089,101</u>
Total all other governmental funds	1,303,974	1,153,721	1,255,714	1,949,312	2,715,831	3,209,809	2,429,049	2,370,521	2,145,962	2,266,397
Total governmental funds	<u><b>\$ 2,673,608</b></u>	<u><b>\$ 3,210,296</b></u>	<u><b>\$ 3,762,120</b></u>	<u><b>\$ 4,836,115</b></u>	<u><b>\$ 6,581,883</b></u>	<u><b>\$ 7,085,203</b></u>	<u><b>\$ 6,067,948</b></u>	<u><b>\$ 6,249,838</b></u>	<u><b>\$ 6,219,677</b></u>	<u><b>\$ 6,433,846</b></u>

# City of Grosse Pointe Farms, Michigan

## Changes in Fund Balances of Governmental Funds Last Ten Fiscal Years (Modified Accrual Basis of Accounting)

	Year Ended June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Revenue</b>										
Property taxes	\$ 6,564,324	\$ 6,861,407	\$ 7,294,661	\$ 7,519,710	\$ 8,474,589	\$ 8,472,118	\$ 8,677,149	\$ 8,791,286	\$ 9,081,308	\$ 9,372,015
Licenses and permits	187,729	182,134	224,590	216,982	234,481	241,671	263,414	243,552	300,392	280,651
Federal sources	49,778	214,336	130,427	-	57,002	71,577	58,775	117,992	153,087	17,525
State sources	1,362,805	1,508,022	1,568,241	1,622,127	1,622,147	1,588,368	1,469,539	1,445,931	1,435,085	1,390,255
Special assessments	13,383	5,899	-	-	-	-	-	-	-	-
Charges for services	720,923	746,193	978,667	848,462	991,717	923,938	980,009	1,140,423	1,078,316	1,356,125
Fines and forfeitures	228,301	196,519	164,138	192,712	228,960	297,110	427,104	425,862	426,898	409,959
Cable TV sale proceeds	-	209,588	-	-	-	-	-	-	-	-
Interest	386,241	368,166	422,250	479,228	635,187	514,896	324,100	261,541	330,665	589,178
Other	158,624	482,081	194,088	146,381	105,113	131,466	223,779	133,229	482,794	162,589
Total revenue	9,672,108	10,774,345	10,977,062	11,025,602	12,349,196	12,241,144	12,423,869	12,559,816	13,288,545	13,578,297
<b>Expenditures</b>										
Current:										
General government	692,985	738,835	796,091	816,110	841,587	945,864	950,157	1,028,628	984,008	964,324
Municipal court	196,930	171,509	179,262	188,768	189,751	219,571	252,487	259,611	278,397	272,935
Public safety:										
Police, fire, and EMS	2,972,626	3,098,627	3,210,358	3,284,784	3,320,484	3,947,885	3,894,950	4,234,782	4,336,236	4,388,644
Building inspections	382,010	340,755	401,599	414,872	398,885	446,842	475,850	451,498	429,524	475,135
Public works and streets:										
Streets	594,099	850,337	661,297	676,475	1,183,620	813,985	919,161	990,101	717,164	1,040,304
Rubbish disposal and recycling	1,260,879	1,324,111	1,319,183	1,227,220	1,271,899	1,426,289	1,580,026	1,604,130	1,514,497	1,554,988
Other public works	68,708	-	-	-	6,182	-	-	-	-	-
Community and economic development	43,315	140,572	130,427	-	57,002	37,999	58,775	13,125	78,850	8,903
Recreation and culture	582,780	596,338	654,502	679,622	755,149	816,083	842,467	921,950	932,253	1,104,767
Other functions	934,175	1,019,856	857,089	928,738	785,595	1,367,813	1,450,551	1,240,531	1,485,057	1,687,616
Capital outlay	1,742,709	1,543,309	861,085	645,868	619,164	640,890	2,319,628	814,265	4,632,617	5,735,292
Debt service principal	450,000	445,000	740,000	540,000	560,000	585,000	535,000	555,000	90,000	-
Debt service interest	151,014	151,168	90,645	18,750	14,110	9,603	4,976	4,305	36,208	198,653
Total expenditures	10,072,230	10,420,417	9,901,538	9,421,207	10,003,428	11,257,824	13,284,028	12,117,926	15,514,811	17,431,561
<b>Excess of Revenue Over (Under) Expenditures</b>	(400,122)	353,928	1,075,524	1,604,395	2,345,768	983,320	(860,159)	441,890	(2,226,266)	(3,853,264)
<b>Other Financing Sources (Uses)</b>										
Debt issuance/refinanced	-	2,895,000	-	-	-	-	-	-	2,500,000	4,300,000
Refinanced notes	-	(2,295,000)	-	-	-	-	-	-	-	-
Debt premium or discount	-	-	-	-	-	-	-	-	(7,394)	37,433
Transfers in	2,183,119	1,204,698	1,367,713	1,538,582	2,070,910	2,175,500	2,112,677	1,335,570	1,974,708	2,262,719
Transfers out	(2,539,119)	(1,621,938)	(1,891,413)	(2,068,982)	(2,670,910)	(2,655,500)	(2,587,677)	(1,595,570)	(2,271,209)	(2,532,719)
<b>Prior Period Adjustment (GASB 16)</b>	-	-	-	-	-	-	317,904	-	-	-
<b>Net Change in Fund Balances</b>	(756,122)	536,688	551,824	1,073,995	1,745,768	503,320	(1,017,255)	181,890	(30,161)	214,169
<b>Fund Balances - Beginning of year</b>	3,429,730	2,673,608	3,210,296	3,762,120	4,836,115	6,581,883	7,085,203	6,067,948	6,249,838	6,219,677
<b>Fund Balances - End of year</b>	<u>\$ 2,673,608</u>	<u>\$ 3,210,296</u>	<u>\$ 3,762,120</u>	<u>\$ 4,836,115</u>	<u>\$ 6,581,883</u>	<u>\$ 7,085,203</u>	<u>\$ 6,067,948</u>	<u>\$ 6,249,838</u>	<u>\$ 6,219,677</u>	<u>\$ 6,433,846</u>
Debt service as a percentage of noncapital expenditures	7.78%	7.20%	10.12%	6.80%	6.52%	5.93%	5.18%	5.21%	1.17%	1.73%

## **Revenue Capacity**

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These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

# City of Grosse Pointe Farms, Michigan

## Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Levy	Current Collections	Percent Collected	Delinquent Collections	Total Tax Collections	Percent of Levy Collected
1996	1997	6,352,916	6,265,668	98.63%	105,578	6,371,246	100.29%
1997	1998	6,600,853	6,496,864	98.42%	122,184	6,619,048	100.28%
1998	1999	7,116,065	6,986,343	98.18%	131,733	7,118,076	100.03%
1999	2000	7,489,783	7,195,336	96.07%	131,355	7,326,691	97.82%
2000	2001	8,565,252	8,433,696	98.46%	123,198	8,556,894	99.90%
2001	2002	9,012,152	8,864,391	98.36%	137,220	9,001,611	99.88%
2002	2003	9,468,734	9,279,094	98.00%	167,673	9,446,767	99.77%
2003	2004	9,608,324	9,434,739	98.19%	152,576	9,587,315	99.78%
2004	2005	10,154,372	9,946,298	97.95%	196,054	10,142,352	99.88%
2005	2006	10,224,520	9,894,046	96.77%	315,166	10,209,212	99.85%

# City of Grosse Pointe Farms, Michigan

## Assessed Taxable Values (History of Property Values) Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Taxable Value by Property Type				Tax Rate (Mills)	Estimated Actual Value	Taxable Value as a % of Actual
		Real Property		Personal Property	Total Value			
		Residential	Commercial					
1996	1997	\$ 513,380,924	\$ 20,190,758	\$ 7,251,320	\$ 540,823,002	11.75	\$1,111,421,408	48.66%
1997	1998	528,784,828	23,757,641	7,745,010	560,287,479	11.75	1,161,689,554	48.23%
1998	1999	547,170,140	24,406,904	7,518,690	579,095,734	12.25	1,244,392,280	46.54%
1999	2000	565,605,858	24,340,321	7,893,670	597,839,849	12.25	1,396,010,262	42.82%
2000	2001	589,242,723	24,687,716	7,990,500	621,920,939	13.75	1,607,321,800	38.69%
2001	2002	622,834,662	25,535,181	8,296,600	656,666,443	13.75	1,830,483,554	35.87%
2002	2003	654,917,727	26,307,567	7,980,300	689,205,594	13.75	1,968,040,336	35.02%
2003	2004	675,892,688	27,119,118	8,150,230	711,162,036	13.50	1,994,514,298	35.66%
2004	2005	704,378,778	28,808,986	8,111,800	741,299,564	13.375	2,004,236,600	36.99%
2005	2006	731,565,929	30,089,081	9,343,764	770,998,774	13.25	2,041,603,156	37.76%

Note: Under Michigan law, the revenue base is referred to as "Taxable Value." This amount represents assessed value (50% of true cash value), limited for each property by the lower of 5% or inflation.

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year.

# City of Grosse Pointe Farms, Michigan

## Property Tax Rates Direct and Overlapping Governments Last Ten Fiscal Years

Tax Year	Millage Rates - Direct City Taxes				Overlapping Taxes						Total Tax Rate	
	General Operating	Debt	Special Purpose	Total Direct Taxes	County	Grosse Pointe Library	Community College	Intermediate School District	School Homestead	School Non-homestead	Homestead	Non-homestead
1996	11.7500	-	-	11.7500	8.5000	1.1600	1.2100	2.0000	14.1600	24.0000	38.7800	48.6200
1997	11.7500	-	-	11.7500	8.5000	1.1600	1.2000	2.0000	13.9100	24.0000	38.5200	48.6100
1998	12.2500	-	-	12.2500	8.5000	1.1400	1.1500	2.0000	13.9500	24.0000	38.9900	49.0400
1999	12.2500	-	-	12.2500	8.4572	1.1400	1.1500	2.0000	13.7765	24.0000	38.7737	48.9972
2000	11.2500	1.5000	1.0000	13.7500	8.4039	1.5000	1.0000	1.9789	13.4234	23.8236	40.0562	50.4564
2001	11.2500	1.5000	1.0000	13.7500	8.3905	1.6321	2.4995	1.9753	13.1340	23.4207	41.3814	51.6681
2002	11.2500	1.5000	1.0000	13.7500	8.6390	1.6074	2.4862	3.4643	13.7291	24.2632	43.6760	54.2101
2003	11.0000	1.5000	1.0000	13.5000	8.6361	1.5829	2.4862	3.4643	13.0431	23.3187	42.7126	52.9882
2004	10.5750	1.5000	1.3000	13.3750	8.6354	1.5000	2.4844	3.4643	14.8384	25.1152	44.2975	54.5743
2005	10.4500	1.5000	1.3000	13.2500	8.6346	1.5000	2.4769	3.4643	14.5498	26.2851	43.8756	55.6109

Note: Michigan law restricts the maximum millage that may be levied by the City without a vote of residents, as follows:

	General Operating	Debt	Special Purpose
2005	12.4813	no limit	2.7482

Source: Municipal Advisory Council of Michigan

# City of Grosse Pointe Farms, Michigan

## Principal Property Taxpayers (Major Taxpayers) Current Year and Nine Years Ago

Taxpayer	2005 Taxable Value	Percentage of Total	1996 Taxable Value	Percentage of Total	1996 Rank
Country Club of Detroit	\$ 6,211,477	0.81%	\$ 4,343,298	0.80%	1
Kercheval Development Co.	4,054,525	0.53%	399,254	0.07%	10
Ford, Elena/Rippolone, Joseph	2,714,562	0.35%	1,946,270	0.36%	3
Soave, Anthony-Darlene	2,223,229	0.29%	1,275,689	0.24%	6
Premiere Equities GP, LLC	2,187,894	0.28%	1,423,430	0.26%	5
Ford, Mr.-Mrs. Edsel	2,171,766	0.28%	1,950,014	0.36%	2
Detroit Edison Co.	2,109,100	0.27%	1,917,340	0.35%	4
Cracchiolo, Ray	1,786,546	0.23%	1,229,374	0.23%	7
Meathe, Cullan	1,611,200	0.21%	1,122,305	0.21%	8
M. R. Fisher Family Office	1,493,218	0.19%	879,710	0.16%	9

## **Debt Capacity**

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These schedules contain information to help the reader assess the affordability of the City's current levels of outstanding debt, and the City's ability to issue additional debt in the future.



# City of Grosse Pointe Farms, Michigan

## Ratios of Net General Bonded Debt Outstanding Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Less Pledged Debt Service Funds	Net General Bonded Debt	Taxable Value	Debt as a Percentage of Taxable Value	Population	Debt per Capita
1997	\$ 835,000	\$ -	\$ 835,000	\$ 540,823,002	0.15%	10,092	\$ 82.74
1998	735,000	-	735,000	560,287,479	0.08%	10,092	72.83
1999	450,000	-	450,000	579,095,734	0.07%	10,092	44.59
2000	385,000	-	385,000	597,839,849	0.05%	10,092	38.15
2001	320,000	-	320,000	621,920,939	0.04%	9,764	32.77
2002	250,000	-	250,000	656,666,443	0.03%	9,764	25.60
2003	175,000	-	175,000	689,205,594	0.01%	9,764	17.92
2004	90,000	-	90,000	711,162,036	0.35%	9,764	9.22
2005	2,492,976	-	2,492,976	741,299,564	0.34%	9,764	255.32
2006	6,830,779	-	6,830,779	770,998,774	0.89%	9,764	699.59

# City of Grosse Pointe Farms, Michigan

## Ratios of Outstanding Debt by Type Last Ten Fiscal Years

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Governmental Activities</b>										
General obligation bonds	\$ 835,000	\$ 735,000	\$ 450,000	\$ 385,000	\$ 320,000	\$ 250,000	\$ 175,000	\$ 90,000	\$ 2,492,976	6,830,779
Installment purchase agreements	<u>2,295,000</u>	<u>2,550,000</u>	<u>2,170,000</u>	<u>1,770,000</u>	<u>1,350,000</u>	<u>915,000</u>	<u>465,000</u>	-	-	-
Total	3,130,000	3,285,000	2,620,000	2,155,000	1,670,000	1,165,000	640,000	90,000	2,492,976	6,830,779
<b>Business-type Activities</b>										
General obligation bonds	-	-	-	10,782,526	10,784,930	10,387,334	9,984,738	9,572,142	10,645,332	10,192,958
Installment purchase agreements	-	-	-	-	128,000	96,000	32,000	-	-	-
Revenue bonds	700,000	625,000	550,000	475,000	400,000	300,000	200,000	100,000	-	-
Capital leases	-	-	-	-	-	1,011,410	779,901	534,709	-	-
Total	<u>700,000</u>	<u>625,000</u>	<u>550,000</u>	<u>11,257,526</u>	<u>11,312,930</u>	<u>11,794,744</u>	<u>10,996,639</u>	<u>10,206,851</u>	<u>10,645,332</u>	<u>10,192,958</u>
Total debt of the government	<b><u>\$ 3,830,000</u></b>	<b><u>\$ 3,910,000</u></b>	<b><u>\$ 3,170,000</u></b>	<b><u>\$ 13,412,526</u></b>	<b><u>\$ 12,982,930</u></b>	<b><u>\$ 12,959,744</u></b>	<b><u>\$ 11,636,639</u></b>	<b><u>\$ 10,296,851</u></b>	<b><u>\$ 13,138,308</u></b>	<b><u>\$ 17,023,737</u></b>
<b>Taxable Value</b>	\$540,823,002	\$560,287,479	\$579,095,734	\$ 597,839,849	\$ 621,920,939	656,666,443	689,205,594	711,162,036	741,299,564	770,998,774
<b>Ratio of Total Debt to Taxable Value</b>	0.71%	0.70%	0.55%	2.24%	2.09%	1.97%	1.69%	1.45%	1.77%	2.21%
<b>Total Population</b>	10,092	10,092	10,092	10,092	9,764	9,764	9,764	9,764	9,764	9,764
<b>Total Debt Per Capita</b>	\$ 380	\$ 387	\$ 314	\$ 1,329	\$ 1,330	\$ 1,327	\$ 1,192	\$ 1,055	\$ 1,346	\$ 1,744

# City of Grosse Pointe Farms, Michigan

## Direct and Overlapping Governmental Activities Debt June 30, 2006

Governmental Unit	Debt Outstanding	Estimated % Applicable	Estimated Share of Overlapping Debt
Wayne County	103,012,320	1.60%	\$ 1,648,197
Grosse Pointe School District	62,075,000	25.71%	15,959,483
Grosse Pointe Library	18,200,000	25.71%	4,679,220
Wayne County Community College	59,165,000	2.52%	1,490,958
Intermediate School District	-	1.57%	-
Total overlapping debt			\$ 23,777,858
Direct City debt			17,030,000
Total direct and overlapping debt			<u>\$ 40,807,858</u>

Source: Municipal Advisory Council of Michigan

# City of Grosse Pointe Farms, Michigan

## Legal Debt Margin Last Ten Fiscal Years

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Calculation of Debt Limit</b>										
State equalized valuation	\$ 555,710,704	\$ 580,844,704	\$ 622,196,140	\$ 698,005,131	\$ 803,660,900	\$ 915,241,777	\$ 984,020,168	\$ 997,257,149	\$ 1,002,118,300	\$ 1,020,801,578
10% of taxable value	\$ 55,571,070	\$ 58,084,470	\$ 62,219,614	\$ 69,800,513	\$ 80,366,090	\$ 91,524,178	\$ 98,402,017	\$ 99,725,715	\$ 100,211,830	\$ 102,080,158
<b>Calculation of Debt Subject to Limit</b>										
Total debt	\$ 1,535,000	\$ 1,360,000	\$ 1,000,000	\$ 11,642,526	\$ 11,504,930	\$ 10,937,334	\$ 10,359,738	\$ 9,762,142	\$ 13,138,308	\$ 17,023,737
Less debt not subject to limit:										
Revenue bonds	700,000	625,000	550,000	475,000	400,000	300,000	200,000	100,000	-	-
Water Resources Commission or Court-ordered bonds	-	-	-	10,782,526	10,784,930	10,387,334	9,984,738	9,572,142	10,645,332	10,192,958
Net debt subject to limit	\$ 835,000	\$ 735,000	\$ 450,000	\$ 385,000	\$ 320,000	\$ 250,000	\$ 175,000	\$ 90,000	\$ 2,492,976	\$ 6,830,779
<b>Legal Debt Margin</b>	\$ 54,736,070	\$ 57,349,470	\$ 61,769,614	\$ 69,415,513	\$ 80,046,090	\$ 91,274,178	\$ 98,227,017	\$ 99,635,715	\$ 97,718,854	\$ 95,249,379
<b>Net Debt Subject to Limit as % of Debt Limit</b>	1.50%	1.27%	0.72%	0.55%	0.40%	0.27%	0.18%	0.09%	2.49%	6.69%

# City of Grosse Pointe Farms, Michigan

## Pledged Revenue Coverage Last Ten Fiscal Years

Fiscal Year	Water and Sewer Revenue Bonds						
	Gross	Applicable	Net	Debt Service			Coverage
	Revenues	Expenses	Revenues	Principal	Interest	Total	
1997	\$ 2,330,959	\$ 2,049,993	\$ 280,966	\$ 75,000	\$43,240	\$ 118,240	238%
1998	2,577,093	2,600,576	(23,483)	75,000	38,763	113,763	(21%)
1999	2,808,237	2,556,575	251,662	75,000	34,344	109,344	230%
2000	3,136,004	2,744,140	391,864	75,000	41,904	116,904	335%
2001	2,972,025	2,978,925	(6,900)	75,000	27,188	102,188	(7%)
2002	3,027,640	2,504,654	522,986	100,000	21,825	121,825	429%
2003	3,224,205	3,038,778	185,427	100,000	9,425	109,425	169%
2004	3,047,364	3,239,973	(192,609)	100,000	3,150	103,150	(187%)
2005	3,187,862	3,139,055	48,807	100,000	3,150	103,150	47%
2006	3,744,986	3,590,474	154,512	-	-	-	-

## **Demographics and Economic Information**

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These schedules offer demographics and economic indicators to help the reader understands the environment within which the City's financial activities take place.

# City of Grosse Pointe Farms, Michigan

## Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
1997	10,092	379,217	37,576	<2%
1998	10,092	384,586	38,108	<2%
1999	10,092	390,026	38,647	<2%
2000	10,092	393,285	38,970	<2%
2001	9,764	385,893	39,522	<2%
2002	9,764	391,361	40,082	<2%
2003	9,764	396,916	40,651	<2%
2004	9,764	402,540	41,227	<2%
2005	9,764	408,252	41,812	<2%
2006	9,764	414,706	42,473	<2%

Sources:

- (1) City of Grosse Pointe Farms
- (2) United States Census Bureau - 2000 Census (last reported)

# City of Grosse Pointe Farms, Michigan

## Principal Employers (Major Employers) Last Fiscal Year and Nine Years Ago

Taxpayer		2006 Employees
1	Bon Secours/Cottage Hospital	1,800
2	Grosse Pointe Schools	282
3	City of Grosse Pointe Farms	155
4	Country Club of Detroit	120
5	United States Post Office	102
6	Grosse Pointe Academy	72
7	St. Paul's Church/School	54
8	Kroger's Grocery Store	54
9	Village Market	39
10	Wendy's Restaurant	29
		<u>2,707</u>

Note: Current year total employment data and data from nine years earlier is not readily available.



## **Operating Information**

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These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

## City of Grosse Pointe Farms, Michigan

### Full-time Equivalent Government Employees by Function Last Ten Fiscal Years

Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government	11.00	11.00	10.70	10.70	11.40	11.40	11.40	11.10	11.10	11.50
Public safety:										
Police	44.34	44.34	44.34	44.34	44.34	44.34	44.34	44.34	44.34	44.34
Fire and EMS	6.00	6.00	5.00	5.00	4.00	3.00	4.00	4.00	4.00	4.00
Building inspection	4.00	4.00	4.00	4.00	3.60	3.60	3.60	3.96	3.02	3.52
Radio system	2.00	2.00	2.00	2.00	2.00	2.00	1.00	1.00	1.00	1.00
Municipal court	4.25	4.25	3.25	3.25	3.25	3.00	3.20	3.60	3.60	3.60
Public works:										
DPW	27.89	27.89	27.89	27.89	27.89	27.89	27.89	30.72	30.72	30.72
Water and sewer	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
Parks and recreation	21.31	21.31	21.31	21.31	21.94	22.61	22.61	22.79	23.06	24.18
Total	<u>129.04</u>	<u>129.04</u>	<u>126.74</u>	<u>126.74</u>	<u>126.67</u>	<u>126.09</u>	<u>126.29</u>	<u>129.76</u>	<u>129.09</u>	<u>131.11</u>

Source: Various City of Grosse Pointe Farms departments

# City of Grosse Pointe Farms, Michigan

## Operating Indicators by Function Last Ten Fiscal Years

Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Election data:										
Registered voters	8,589	8,846	9,045	7,660	8,557	8,354	7,809	8,163	8,282	7,812
Voters (at the polls or absentee)	6,175	2,544	5,252	1,335	6,434	3,171	5,274	2,788	6,656	987
Percent voting	72%	29%	58%	17%	75%	38%	68%	34%	80%	13%
Municipal Court - Number of court cases	7,179	5,689	4,184	5,410	7,503	8,520	11,000	8,141	6,156	5,908
Police:										
Physical arrests	166	148	150	172	218	311	333	359	400	357
Investigations	6,198	5,987	5,789	5,956	6,164	6,334	6,114	5,972	6,093	6,025
Fire:										
Fire runs	129	114	131	102	97	122	86	116	108	116
Emergency medical runs	337	374	414	441	457	400	342	369	402	376
Inspections	228	220	240	240	234	253	258	227	285	282
Public works:										
Miles of street resurfaced	1.95	2.63	1.43	1.07	0.50	-	2.00	1.19	-	
Refuse collected (tons)	N/A	N/A	N/A	N/A	N/A	8,254	8,618	9,055	8,670	7,989
Parks and recreation:										
Recreation program attendance	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	542
Vehicles entering Pier Park	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	151,422
Water:										
Number of customers billed	4,095	4,090	4,081	4,096	4,093	4,094	4,098	4,100	4,102	4,099
Total consumption (thous.cu.ft.)	72,796	77,722	85,775	85,557	74,096	76,942	82,958	74,100	72,075	83,417
Avg consumption per user	17.78	19.00	21.02	20.89	18.10	18.79	20.24	18.07	17.57	20.35

Source: Various City of Grosse Pointe Farms departments

# City of Grosse Pointe Farms, Michigan

## Capital Asset Statistics by Function Last Ten Fiscal Years

Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	6	6	6	6	6	6	6	6	6	6
Fire:										
Stations	1	1	1	1	1	1	1	1	1	1
Fire response vehicles	3	3	3	3	3	3	3	3	3	3
Public works:										
Streets (miles):										
Major streets	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18
Local streets	26.91	26.91	26.91	26.91	26.91	26.91	27.07	27.07	27.07	27.07
Sidewalks	74.28	74.28	74.28	74.28	74.28	74.28	74.59	74.59	74.59	74.59
Streetlights	954	954	954	954	954	954	954	954	954	954
Traffic signals	22	22	22	22	22	22	23	23	23	23
Refuse collection trucks	7	7	7	7	7	7	8	8	8	8
Parks and recreation:										
Acreage	20.67	20.67	20.67	20.67	23.26	23.26	23.26	23.26	23.26	23.26
Developed parks/playgrounds	2	2	2	2	2	2	2	2	2	2
Developed fields (soccer, baseball, etc)	3	3	3	3	4	4	4	4	4	4
Harbor boat wells	291	291	291	291	291	291	291	291	291	333
Water:										
Mains (miles)	42.34	42.34	42.34	42.34	42.34	42.34	42.34	42.34	42.34	42.59
Fire hydrants	500	500	500	500	500	500	500	500	500	502
Storage capacity - Millions of gallons	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Sewer:										
Miles of sanitary sewers	3	3	3	3	18	18	18	18	18	18
Miles of storm sewers	3	3	3	3	18	18	18	18	18	18
Miles of combined sanitary and storm	36	36	36	36	21	21	21	21	21	21

Source: Various City of Grosse Pointe Farms departments

October 27, 2006

Honorable Mayor  
and Members of the City Council  
City of Grosse Pointe Farms  
90 Kerby Road  
Grosse Pointe Farms, MI 48236

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Grosse Pointe Farms for the year ended June 30, 2006. We offer the following items of an informational nature for your consideration as the policy making body of the City:

#### **OVERVIEW OF THE CITY'S FINANCIAL CONDITION**

During the year ended June 30, 2006, the financial condition of the City improved as revenue exceeded expenditures by \$93,734 in the General Fund, the City's primary operating fund. Fund balance in the General Fund totaled \$4,167,449 with \$81,830 reserved for prepaid items and inventory, \$1,458,454 being designated for future capital projects and the remaining \$2,627,165 being undesignated. While the increase in fund balance strengthens the General Fund's positive fiscal position, we again encourage the City to monitor and maintain adequate fund balance reserves. By maintaining an adequate fund balance, the City is able to adjust to financial changes without the need for drastic reactions to adverse circumstances.

#### **STATISTICAL SECTION**

Effective for the year ended June 30, 2006, the City completed implementation of the Governmental Accounting Standards Board Statement Number 44, *Statistical Section*. This Statement substantially changes and expands the required disclosure in the Statistical Section of the financial statements. Significant research was required to appropriately address the new standard by both City administration as well as various City departments. This new statement completely revamps the entire approximately 20 page statistical section contained within the Comprehensive Annual Financial Report. The statistical section is one of the primary voluntary expanded financial reports required. We would like to complement the City and the City controller's office for their successful implementation of this new requirement and their continued success as a leader in financial statement reporting among municipalities.

## FUNDING OF POST-EMPLOYMENT BENEFIT OBLIGATIONS

As indicated in the last two years' letters to Council, the Governmental Accounting Standards Board has issued Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45)*. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. For many communities, the funding of postemployment benefits is the most significant financial challenge they will face in coming years. To date, the City has been proactively funding a portion of the total postemployment benefit liability; however, GASB 45 will require increased annual funding requirements beginning with the City's 2008-2009 fiscal year. We encourage the City's Audit Committee to meet with the City's actuary to discuss GASB 45 and its impact on annual postretirement healthcare funding.

## NEW AUDITING STANDARDS

The American Institute of Certified Public Accountants Audit Standards Board recently issued nine new Statements on Auditing Standards (SAS). The new auditing standards increase the level of documentation that is required to be obtained during our audits and modify the way we conduct our work. The new standards take effect over the next two years. The following is a summary of the new standards:

- **Statement on Auditing Standards 103 - Audit Documentation** - This standard is effective for the year ending June 2007 and clarifies and increases the requirements that auditors must follow in obtaining, managing, and retaining documentation that supports the audit opinion. It redefines the form, content, and extent of audit documentation necessary to support the audit work. It also redefines the method used to determine the dating of the auditor's report. The substantive implication of this new standard to the City is that we will be more specific in our requests for information and documentation.
- **Statement on Auditing Standards 112 - Communication of Internal Control Related Matters Noted in an Audit** - This standard is effective for the year ending June 2007 and establishes requirements for the auditor's communication responsibility to the City Council concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. This new audit standard lowers the threshold that is used to determine if a control deficiency must be reported to the Council. The substantive implication of this new standard is that it is likely that we will be required to officially report on more internal control-related items than in the past.
- **Statement on Auditing Standards 104 to 111 - The Risk Assessment Standards** - These standards are effective for the year ending June 2008 and will substantially affect the auditing process by enhancing the auditor's application of audit risk assessment. The standards require auditors to perform the following:

- Obtain a more in-depth understanding of the City and its internal control environment to identify the risks of material misstatement in the financial statements and what the City is doing to mitigate them
- Perform a more rigorous assessment of the risks of material misstatement of the financial statements based on that understanding
- Improve the linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks

## **INTERNAL CONTROLS AND OTHER ACCOUNTING MATTERS**

In planning and performing our audit of the City's financial statements, we considered the City's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, as part of the City's process of continuous improvement, we attempt to identify opportunities for the City to revise or update its systems or procedures. With that in mind, the following comments and recommendations are offered for your review and consideration:

### **• WIRE TRANSFER PROCEDURES**

The City makes numerous wire transfers to financial institutions for the purchase of investments. In addition, certain vendors are now requiring that all payments be made exclusively by wire transfer. Some of the advantages of wire transfers include the instant transfer of funds and a reduction in the number of checks written. One significant disadvantage of wire transfers is that they are often not subject to all of the same internal control procedures as a routine accounts payable check. We recommend that the City review its internal control policies with respect to wire transfers and ensure that the following controls are implemented:

- Two signatures of approval from authorized personnel should be required before any transfer is made.
- A listing of all non-repetitive vendor wire transfers processed should be provided to the City Manager on a quarterly basis.

### **• BANK RECONCILIATION PROCESS**

During our review of the bank reconciliation process, we noted that the preparation and review of reconciliations were not being evidenced by the sign-off of the individuals completing the procedures. We encourage the City to implement a procedure requiring all bank reconciliations to be signed and dated by the preparer and the individual responsible for review.

Honorable Mayor  
and Members of the City Council  
City of Grosse Pointe Farms

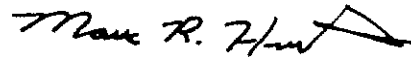
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October 27, 2006

We have also written a separate communication to the City's Audit Committee, which covers more detailed accounting items, such as our audit responsibilities, accounting policies and the use of estimates in the financial statements. We would like to thank the City for the courtesy and cooperation extended to us during this audit. We would be happy to answer any questions you may have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations with you at your convenience.

Very truly yours,

**PLANTE & MORAN, PLLC**



Mark R. Hurst



Nate A. Lewis